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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, SEPTEMBER 5, 1985



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Morin-Strom, K. (Sault Ste. Marie NDP)  
Stephenson, B. M. (York Mills PC)  
Taylor, J. A. (Prince Edward-Lennox PC)

Substitution:

Hennessy, M. (Fort William PC) for Mr. Bennett

Also taking part:

Elgie, R. G. (York East PC)

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witnesses:

Brickman, J., President, Brick Brewing Co. Ltd.  
Harrington, J. P., Barrister and Solicitor, Assistant to the  
Vice-President and General Manager, Labatt's Ontario Breweries  
Morrison, R. A., President, Brewers Association of Canada  
Seagram, N. M., President, Molson Ontario Breweries Ltd.  
Twiner, D. H., President, Carling O'Keefe Breweries Ontario Ltd.

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, September 5, 1985

The committee met at 10:07 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Before we hear our witnesses this morning, perhaps I can indicate that, as you all are aware, the Macdonald commission report is going to be released today. This afternoon we will have some copies of it; I hope at least one for each caucus. They are \$45 each. I guess after we take a look at it we may or may not decide to get one for everybody.

Mr. Taylor: Or a chapter for each member.

Mr. Chairman: A chapter for each member. All right.

ONTARIO BREWERS

Mr. Chairman: This morning, at our invitation, we have a lot of representatives of the brewing industry. I hope I can recognize everyone.

First of all, I understand the gentleman who will be representing the brewing industry in the initial presentation is Norman Seagram, president of Molson Ontario Breweries Ltd. We also have Sandy Morrison, president of the Brewers Association of Canada, and J. R. A. Brickman, of the Brick Brewing Co. Ltd., whose products are in my refrigerator.

Mr. Elgie: Let the record show.

Mr. Chairman: Mr. Twiner is here from Carling O'Keefe Breweries Ontario Ltd. There is another gentleman, whom I have just met and lost track of. First of all, the gentleman who introduced me to everyone--

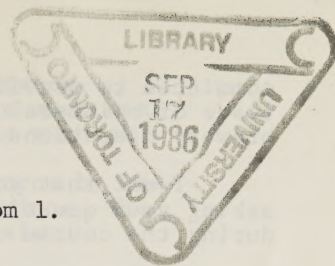
Mr. Hay: John Hay, Carling O'Keefe.

Mr. Harrington: Phil Harrington, Labatt's.

Mr. Chairman: The brewers' presentation will include a slide presentation. They also have a brief, which they have asked to have distributed after the slide presentation so our attention will not be diverted.

Mr. Seagram, would you like to take over?

Mr. Seagram: Mr. Chairman and members of the select committee, good morning. My name is Norman Seagram and I am the president of Molson Ontario Breweries Ltd. It is a pleasure for me, on behalf of the brewers of Ontario, to appear before this



committee to provide a brewing industry perspective on the vital issue of bilateral free trade, especially as it would affect the brewery operations in Ontario.

I ask that you allow us to complete our presentation before asking your questions. I am sure some of them will be answered during the course of our presentation.

Ontario is now served by eight brewing companies of differing scales of operations. One has been active in Canada for almost 200 years; another has been in operation for about a month. For the information of the committee, the brewers of Ontario are:

Amstel Brewery Canada Ltd., Hamilton; the Brick Brewing Co., Waterloo; Carling O'Keefe Breweries of Canada Ltd., Toronto; Labatt Brewing Co. Ltd., London; Molson Ontario Breweries Ltd., Toronto; Northern Breweries Ltd., Sault Ste. Marie; Upper Canada Brewing Co., Toronto; and Wellington County Brewery Ltd., Guelph.

You have met the members of our party. Just to repeat: Phil Harrington, from Labatt's; Jim Brickman, of the Brick Brewing Co.; Don Twiner, of Carling O'Keefe; Sandy Morrison, of the Brewers Association of Canada.

I should point out that the Amstel Brewery, a wholly owned subsidiary of the Heineken organization of Holland, which trades worldwide, does not have the same views on free trade as the rest of the Ontario industry, but Amstel has invested in Ontario, and as an Ontario-based brewer, enjoys the same distribution, retail facilities and systems as the other Ontario brewers.

This morning we propose to review for you the national situation. Following that, we will have a closer look at Ontario. I now defer to Sandy Morrison, president of the Brewers Association of Canada.

Mr. Morrison: The issue of free trade in beer is not new on the national scene, but in the last several years, with US brewers facing increasing concentration of ownership and market share in the United States, and the levelling off of absolute consumption of beer, pressure from specific US brewers for greater access to the Canadian market has mounted. Leading the drive are the G. Heileman Brewing Co. and the Stroh Brewing Co., who on a combined basis represent about 23 per cent of the US domestic market.

Their complaints centre on higher Canadian import duties, the different provincial markups for provincially brewed product versus imported beers, the lack of access to the Brewers' Warehousing distribution system here in Ontario, and the restrictive listing practices of provincial liquor commissions.

At this point, I would like to comment as well that the Canadian industry is not without a strong defence to these allegations.

For example, differential provincial markups for beer delivered from outside a province, from other provinces within

Canada or from the United States or other foreign countries, reflect the fact that the provincial liquor commissions must bear the cost of warehousing, delivery, and in jurisdictions such as Ontario, the wholesale and retail distribution of the out-of-province or foreign products. These costs are borne by the provincial brewing industries operating within the province. The differential markup is a reflection of cost differentials.

The Brewers Association of Canada has recently written to each provincial liquor commission requesting its co-operation in completing a questionnaire that would assist Canadian breweries in mounting a counter attack against what we believe are unsubstantiated allegations of discrimination that are being advanced by these US brewers.

The Canadian industry anticipates the filing of a formal trade complaint by the US brewers to the US trade office in the near future. Such action, which would probably be initiated by Stroh or Heileman, would initiate a formal investigation by the Office of the United States Trade Representative and pave the way for the application of countervail duty or other retaliatory action against Canadian beer exports to the United States.

As a bilateral agenda issue between our two governments, Canada-United States trade moved up rapidly to head the list of priorities between our two countries with, first, the tabling in February 1985 of the discussion paper entitled How to Secure and Enhance Canadian Access to Export Markets, by Canada's Minister of State for International Trade, the Honourable James Kelleher, and second, the agreement of Prime Minister Mulroney and President Reagan at what has been referred to as the Shamrock summit in Quebec City for a special priority study of bilateral trade.

A further push towards bilateral free trade is anticipated today with the release of the Macdonald royal commission report on the Canadian economy.

The Canadian brewing industry, in the interim, has not been idle. We have launched initiatives to correct what we maintain are the erroneous impressions of unequal access to our respective markets. The industry has prepared a response to the federal discussion paper that documents the impact that an entry into a continental North American free trade market in beer in an undisciplined or quick way would have on Canadian industry.

We communicated the concern of the industry to all federal members of Parliament and a number of members of the provincial Legislature who have brewing interests in their constituencies. We have met federal and provincial government officials to reinforce our concerns and respond to specific questions, we have appeared before the special joint committee of the Senate and the House of Commons that considered the issue of free trade with the United States, and we are pleased to have the opportunity to meet with you today.

A summary of the industry position on a national basis is that free trade must be fair trade, otherwise it does not make a lot of sense. Any new initiatives with the United States should

ensure that the economic benefits are balanced for both Canadian and US industries. Our views are detailed in the report given to Mr. Kelleher in May of this year, which many members of this committee may well have received from our industry members. We have additional copies available which we will leave with the clerk of the committee.

I would like to spend a few moments reviewing the principal issues identified in our brief to the federal government through an overview presentation we gave federal officials charged with the responsibility of consulting with Canadian business and industry during the last summer and who are now preparing a report for federal cabinet consideration later this month.

The history indicates that the industry has traditionally kept a low profile and attempted to be responsive to policy directives of both federal and provincial governments. These policy directives have originated in large part with the provinces, who have authority over the sale and distribution of our product. I will show the slides now.

Provincial policies have, by and large, dictated that Canadian breweries wishing to market their products in a given province must operate a brewery in that province. This has been accomplished through a range of policies and practices of a formal and informal nature covering liquor board listing practices, markups and distribution controls.

As a result, the brewing industry in Canada has evolved as a group of smaller-capacity regional operations. This contrasts with the development of the industry in the United States, which has occurred on a national scale, utilizing high-capacity plants serving wide geographic areas.

Today there are 39 conventional brewing operations in Canada. We define as conventional breweries with annual volumes in excess of 50,000 hectolitres. There is also a growing trend towards microbreweries, or brew pubs, in many parts of Canada. Nine of Canada's 10 provinces have at least two brewing companies in operation, and Prince Edward Island, the 10th province, is expected to have a new brewery in production in December 1985.

US breweries, on the other hand, tend to be concentrated in the higher-density-population regions and are located in only 26 of the 48 mainland states. There are no constraints on the shipment and distribution of beer on an interstate basis. By way of example, the fifth-largest US brewery, Coors, produces in excess of 15 million hectolitres, or the equivalent of 75 per cent of the total Canadian beer market, from a single vertically integrated plant in Golden, Colorado, which serves the entire US market.

10:20 a.m.

Canadian breweries are currently operating at 83 per cent of total capacity, which, given the seasonal considerations and regulatory constraints, is a reasonable capacity position. This provides reserve brewing capacity of approximately 4.5 million

hectolitres. The US industry, on the other hand, as this graph shows, has a surplus capacity of 75 million hectolitres, enough to service the Canadian market three and a half times over, and it is operating at less than 75 per cent of its total production capability.

One US brewer has a brand-new, state-of-the-art, high-capacity plant capable of producing 10 million hectolitres annually, mothballed at Trenton, Ohio, directly south of the Ontario market. Moreover, the US surplus beer capacity, as shown on the right of the graph, is concentrated in the north adjacent to the US-Canadian border.

This installed surplus brewing capacity, coupled with significantly lower direct production costs, poses a serious threat to Canada in the current environment. This substantial idle capacity gives US brewers the opportunity to dump beer in Canada on an incremental cost basis substantially below our own direct manufacturing costs. Notwithstanding the complaints of some US brewers--a minority, I might add--American brewers have excellent access to the Canadian market.

US brewers, through a combination of direct exports and licensing arrangements, have already acquired 15 per cent of the domestic Canadian market. It should be recognized that the American companies, for whom the licensed brands have been acquired by Canadian companies, represent in excess of 60 per cent of US brewing production.

Canadian brewers, on the other hand, have carved out a small niche in the US market in the narrow premium-price export category. While Canada is second only to the Netherlands in export sales of beer to the United States, our share of total market is restricted to the premium-price sector, which in total represents only three to four per cent of US beer sales. Moreover, this mini-market is highly competitive with, at last count, some 250 brands vying for a share of that three to four per cent volume.

Canada is performing well in the market but it is a small market. Due to the US brewers' substantial production economies, Canada is not able to compete in the high-volume mainstream and low-price US beer markets.

The relationship of Canada's export market share to overall production volume is highlighted in this graph, which shows the increasing share represented by our US market participation. While Canadian exports in 1984 represented approximately 1.2 per cent of the US market, our exports in total represented 10 per cent of annual production volume, about half of which consists of sales to the United States. Individual members' dependence on the US market varies significantly and therefore Canadian companies, in differing degrees, must be sensitive to US retaliatory action.

The next two graphs are intended to show the relative size of the Canadian versus the US beer industry and the increasing concentration of ownership of the respective industries. Twenty years ago the top six US brewers controlled less than 43 per cent of the domestic US market. In 1984, the top six controlled close

to 94 per cent. The largest US brewer, with 36 per cent of the domestic market or 70 million hectolitres of production, is roughly 10 times the size of Canada's largest brewery.

On a consolidated North American market basis, Canada's top three brewers, as this chart shows, represent a ranking of seventh, eighth and ninth. More significantly, their total production represents just 10 per cent of the combined volume of the top 10 in North America. Canada's largest brewer has only a three per cent market share based on a North American market position. Overall, we are clearly dominated in a continental sense by the large US brewers.

In both Canada and the United States, the beer market has levelled off. Increased sales by one brewer can be achieved only at the expense of another. The superior economies of scale enjoyed by the American industry could ultimately diminish the share of a North American market now held by Canadian companies and threaten the maintenance of an independently Canadian-owned brewing industry.

In this discussion we have referred frequently to the cost advantages enjoyed by United States brewers. In the brief there is a table, for which we do not have a slide, that shows a few major differences in cost structure between the two industries, which I will go over.

We have mentioned the economies of scale and the larger United States plants. On average, US breweries are four times the size of Canadian plants. There are 12 US plants producing more beer than the entire Canadian production of any single Canadian company. The average Canadian plant size is about 600,000 hectolitres; the US average is in excess of two million.

Individual employee productivity, as measured by output, is only about one third that of the United States worker. This is a result of our smaller facilities and the utilization in Canada of returnable glass bottles as the dominant packaging vehicle. The structure of the US industry has encouraged the widespread use of aluminium cans, which is 65 per cent of its total package sales. In Canada, canned beer had about a six per cent share of the total package market in 1984.

The average Canadian worker produces about 2,800 hectolitres per year; the American equivalent produces 7,700 hectolitres per man. Wage costs in Canada, which obviously flow from those figures, are virtually double that of the United States per unit of production. Even when exchange rates are taken into consideration, per hectolitre of production, our costs in Canada are \$9.61; in the United States it is \$4.89.

As a result of federal legislation, we have a number of other costs imposed on us. A significant one concerns the largest single material component in beer production, malting barley. Brewers must buy their barley from the Canadian Wheat Board. They pay a premium for it, which works out in Canada to \$5.51 per hectolitre. American brewers buying the same product from Canada can purchase it for \$2.21 a hectolitre.

Yet in Canada the brewing industry is a major economic contributor. On a national basis, it contributed \$7.6 billion to our economy, \$2.8 billion in tax revenues to federal and provincial governments. This graph gives you an indication of the regional contribution to all parts of Canada and the total tax contribution generated by the industry. You can see Ontario is dominant. The gross provincial product contribution of the brewing industry is close to \$3 billion. Taxes paid to the province are close to \$600 million.

In the job category, brewing employment is attractive. On a national level, the industry generates an estimated 182,000 jobs in the economy, 80,000 in direct and indirect brewing employment. This value is not frequently acknowledged. This graph shows clearly we are close to \$30,000 a year in average salary, well over the average manufacturing and overall national average employee wage.

10:30 a.m.

Finally, there is a brief note to the Canadian consumers who have borne the burden of the increasing tax liabilities of drinking our product. In dollars per hectolitre, it may well be expected that in a free trade environment broader consumer attention could be focused on a different taxation system, particularly when it is compared with the United States.

US taxes on beer are 66 per cent lower than Canadian ones. In Canada we pay on average \$29 per hectolitre in federal taxes; in the United States it is \$13.40. On the state or provincial level, again on average, in Canada we pay \$50 a hectolitre; it is less than \$17 a hectolitre in the United States. So approximately 50 cents of every beer dollar goes for taxes in Canada and about 17 cents in taxes goes on the American beer dollar.

The differential on the two tax regimes, and this is both state and federal or federal and provincial taxes, represents roughly 17 cents per bottle of beer or \$4 per case of 24. That is a differential that, if you add it all up on our total Canadian sales, represents more than \$1 billion tax dollars on Canadian domestic sales.

Summarizing the balance of benefits available to Canadian and US brewers from a free trade environment on beer, we think that virtually every category favours US brewers and penalizes Canadian brewers.

The American beer industry already enjoys significant access to the Canadian mainstream market, particularly with licensed brands representing 14 per cent of the market. The Canadian beer industry has more limited access, about 1.2 per cent of the American market, with products being confined to the import sector of the US market due to our higher cost structure. Therefore, our products are no threat to the mainstream domestic market with imports representing only about 3.5 per cent of their total domestic sales.

With regard to distribution, notwithstanding the complaints of our US colleagues, we think it favours American brewers. They already have widespread national distribution under licensing arrangements in Canada. American imports enjoy automatic province-wide distribution in virtually every province through retailing outlets of the various liquor boards. On the other hand, when Canadians export to the United States, they do not have that distribution advantage. They have to go through private systems that are difficult to access and do not offer that widespread geographic distribution.

On structure, the American industry is a national industry built on a world-scale class and affords the Americans great economies of scale. The Canadian industry is a regional industry with small provincial breweries, not dictated by the brewing industry but dictated by provincial policies that require the breweries to maintain and operate on a restricted provincial basis.

As to the tradeoffs for Canada, free trade would cause a massive disruption of the economic and fiscal impact of the brewing industry. In order to compete, the industry would have to restructure to accommodate the new American-style market. On a mathematical basis, this could result in a 63 per cent reduction in employment levels and closure of up to 75 per cent of the current complement of plants, assuming that Canadian brewers could maintain their current share of the North American market--a somewhat questionable assumption, given the heavy tilt in favour of US brewers.

For the US, free trade would benefit only a minority of the American brewing interests, specifically 22 per cent of the industry. Free trade would have an insignificant effect on the participating companies. As one brewer in the United States has stated, their overall capacity might improve by only two per cent. Recognizing that they have less than 75 per cent capacity utilized now, that does not substantially aid their problems.

In conclusion, for Canada, going back to our opening theme, free trade in beer would not be fair trade. There is no upside potential benefit for the Canadian industry evident from free trade in beer with the United States. Entry into free trade would result in major economic disruption across Canada affecting all regions. This disruption would occur as a result of extensive plant closures, massive job losses, estimated at two thirds of current brewing employment, and a reduction in tax revenues to both federal and provincial governments. There would be no offsetting replacement employment activity from US brewers who would clearly use existing surplus capacity located in the United States to service any gains in the Canadian market.

On this basis, we have argued in our submissions to the federal government that free trade in beer is neither an economically feasible nor a politically acceptable policy for Canada.

That is the national review. I would like now to turn it back to Mr. Seagram.

Mr. Seagram: The overview of the impact free trade would have on the national brewing industry parallels the concerns of our members in Ontario. The submission of the Brewers' Association of Canada and the hearings of the special joint committee of the Senate and House of Commons which looked into the bilateral trade issue this summer recognized that in the brewing industry Canada does not have free trade within Canada. This fact has prevented the industry from attaining the economies of scale enjoyed by US brewers, who are unfettered by the requirement to produce beer on a state-by-state basis.

Due to the size of its population, some suggestions have been made that Ontario will be the principal beneficiary of any agreement that led to free trade in beer. This is based on the assumption that the restructuring of the Canadian industry would tend to favour the location of new high capacity plants in central Canada to service the broader markets that would be opened by such a free trade environment. But there are offsetting factors that must be assessed.

Ontario, which represents 36 per cent of the total Canadian beer market and is readily accessible from the United States, would be the primary target for US brewers wishing to expand their Canadian trade. It is a market that is already saturated by American television spillover advertising. It has proven to be open to American brand introductions and is the market where US licensed branded products have enjoyed their greatest penetration.

The Ontario market is so located that it would permit major US brewers with surplus production capacity to flood the provincial market with great ease and with incrementally costed products. There are plants in the United States immediately adjacent to the Ontario border, which you have seen on the slides, that are either mothballed or operating at low levels of capacity. These are high-volume facilities. Some are state of the art in so far as modern technology is concerned. Their ability to produce beer priced on a fully distributed basis below Canadian direct costs of production poses an evident major threat to the very survival of the brewers in Ontario.

In any event, replacement production facilities erected by the Canadian brewing industry would have to be highly automated. Following the American model, such new plants would be based on the use of non-reusable containers, which permit more efficient distribution over a wide geographic area and require substantially reduced labour forces. It could well prove attractive for these facilities to be located outside Ontario in other lower cost areas of Canada, perhaps even in the United States, since in a free trade environment there would be no barriers to where the product was manufactured.

At this point, I might say a few words about beer distribution in Ontario. We distribute our product through an Ontario brewers' co-operative established at the behest of the Ontario government in 1927. It is privately financed by Ontario brewers. It is recognized within Canada and internationally as one of the most, if not the most, efficient and economical systems

operating in any jurisdiction. It provides convenient access to our products on a common price basis from major metropolitan centres to remote and scattered world populations.

Under the management of the Brewers' Warehousing Co. Ltd., licensees and individual consumers enjoy the benefits of a low-cost distribution and retail system that maintains high levels of service and ensures the proper handling and control of the product. The distribution system is a privately owned system, not unlike the independent distribution systems that service the bulk of the beer delivery operations in the United States.

10:40 a.m.

Out-of-province brewers wishing to sell their products in Ontario have access to the distribution system of the Liquor Control Board of Ontario. When products are listed, beers from out of province enjoy distribution throughout the province at approximately 750 LCBO outlets as compared to some 450 stores operated by the Brewers' Warehousing Co.

Brewers' Warehousing operates only for and on behalf of Ontario-based brewers. Like other out-of-province Canadian brewers, US brewers have province-wide access to the Ontario market through the LCBO distribution system, subject to standard commercial listing criteria. In the alternative, US brewers have the option, exercised by the Amstel-Heineken group, to make an investment in Ontario, establish brewing operations and thus qualify for distribution through the Brewers' Warehousing system.

Our industry, we sincerely feel, has been a good citizen. It participates actively in community sports, civic and charitable activities, and at the national level it plays a major role in the support of amateur and professional sports throughout Canada. During the last 10 years the brewing industry in Ontario has increased its employment from 21,300 to 25,700, while overall employment, both direct and indirect, has increased from just under 47,000 jobs to close to 62,000 in 1984.

The average brewery worker's earnings in Ontario have increased from just over \$14,000 in 1974 to \$35,500 in 1984. Total taxes paid by the Ontario industry have increased almost four times during that 10-year period, from \$331 million in 1974 to in excess of \$1 billion last year, 1984. Overall, the brewing industry contributed \$2.8 billion to the Ontario gross provincial product in 1984. This represents 1.6 per cent of the total gross provincial product.

Our members and our employees are proud of the role we have played in the development of Ontario and we want to continue to participate in the future growth of this province. We are concerned that a precipitate rush into a free trade agreement with the United States before the elimination of the very long list of existing interprovincial trade barriers and without adequate safeguards and provision for a lengthy phased transition would jeopardize the very existence of our industry.

This concludes our presentation. We would be pleased to respond to questions from the members covering both the national and the provincial issues involved in free trade review.

The clerk is distributing copies of our brief and some supplementary information.

Mr. Taylor: Just to follow up on your last comment, you seem to state unequivocally in your entire presentation that you would be uncompetitive on a free trade basis with the United States for a number of reasons: existing surplus capacity in the United States, lower wages, three times the productivity--whatever.

Mr. Seagram: That is right.

Mr. Taylor: Then when you ended your presentation, you seemed to indicate you could be competitive if this were phased in over a period of years and if there were some change in the Canadian scene to eliminate interprovincial trade barriers. Could you enlarge on that a little bit? Could you be competitive if there were a domestic reform, if I can put it that way, of the present trade barriers vis-à-vis the various provinces?

Mr. Seagram: Yes, over time. I wonder if I could give a more complete reply by quoting from a letter that the chairman of the Molson companies, James Black, wrote to the Honourable James Kelleher.

As you will recall, Jim Black is also the past chairman of the Canadian Manufacturers' Association, which has published its views on free trade. Jim was writing to the minister in direct reference to the brewing industry. If you will indulge me, I will quote from his letter.

"When asked how they think free trade with the US might affect them, Canadian business people will, I believe, give different answers depending upon whether their understanding is that free trade will come about immediately or a year or two down the road, or five to 10 years hence.

"Given the time to make the necessary preparations for the change, including the human and technological adjustments that may be required, I believe that the Canadian business community is likely to feel much less threatened than they otherwise would. In fact, I suspect that most Canadian business people will be reasonably confident that, given the time and the opportunity and the necessary help to adjust to this new circumstance, they will be able to compete effectively in a freer trade environment.

"A very good case in point perhaps is that of the Canadian brewing industry. This is an industry which, as a result of a history of very strong provincial trade barriers, has been forced to operate an overly large number of very small and therefore cost-inefficient breweries, and while the industry is highly regarded in the brewing world for the high standards that it has achieved in the terms of the science and the process of brewing, and for the quality of its products, the one thing that it has not been able to achieve, primarily because of this historic

structure, is cost-effectiveness or cost-competitiveness. Typically, a major brewer in Canada operates 10 breweries with a combined capacity of 10 million hectolitres per annum and looks across the border at brewing companies operating highly automated single plants as large as or larger than that total capacity.

"The prospect of open and free access for American brewers into Canada, and the opportunity for them to compete on a price basis against Canadian brewers as presently constituted, is therefore devastating. The obvious conclusion is that the Canadian industry would simply not be able to compete on a price basis until provincial barriers, especially those restricting interprovincial shipments, had been removed and production facilities rationalized from 10 breweries in the typical case to something in the range of three or four.

"Given the time to carry out these adjustments, I suspect that the Canadian brewing industry would be prepared to face open competition from American and other brewers in Canada. Without the time and the opportunity to change the structure and to rationalize, the industry probably could not survive price competition. The same thing could be said, I suspect, about many other Canadian industries."

I think that states it as well as anyone. Given time and a massive infusion of capital, we could compete.

Mr. Morrison: One of the things that came up in the preparation of our material for Mr. Kelleher was the fact that the Canadian industry over the past 10 years has invested some \$900 million in facilities, many of them in locations that would not have been invested in, given changed circumstances. The development of new plants to compete with the Americans is an additional \$2 billion of capital in 1984 dollars. When you put that into the picture, the answer is there; but those numbers add some emphasis which is important to keep in mind.

10:50 a.m.

Mr. Taylor: What you are saying is that the rationalization of the Canadian industry on a Canada-wide basis would be a very extensive proposition.

Mr. Morrison: Yes, it would.

Mr. Taylor: And you need that as a condition precedent to put yourself in a position to compete with American counterparts.

Mr. Morrison: That is correct.

Mr. Taylor: What about the significance of the cost of your barley--you mentioned that cost--and the differential in wages? Are you assuming a more equivalent cost of your materials and wages? You are not talking about being competitive but there is an insinuation that you could be competitive with a Canadian rationalization. Could you comment on that? I was wondering what is implicit in that effort to become competitive.

Mr. Seagram: The advantages of the economies of scale would bring wages, on the basis of unit of product, in line with those in the United States. Right now, in general, our Canadian wages stand at a premium over those of the US brewery worker, and, in fact, throughout the distribution systems. That is a concern. It used to be otherwise. However, I do not think in the end that would be a major factor.

I would ask Sandy to respond with respect to the malting barley issue.

Mr. Taylor: Also, while you are responding, you might let me know whether the proposition is contingent on a discount of the Canadian dollar and, if so, at what percentage?

Mr. Morrison: It was taken as a given that if we went into free trade, the impediments or the additional costs imposed by government regulation would have to go, and that includes the malting barley. That represents a substantial amount of money for Canadian farmers.

If the beer industry says, "We cannot be expected to compete if we are paying twice the cost for a basic commodity that our competitors are," we similarly have not been saying that money should come out of the pockets of the Canadian farmers. However, we are saying the industry on its own cannot carry that burden, so presumably government would have to take the burden off the brewing industry and redistribute it. Yes, it was a given that we would not have to absorb that continuing burden.

There are other government regulations that impose costs on us that are disproportionate to the Americans. For instance, the Canadian brewing industry pays its excise taxes daily. Every day the brewers add up what they produce, and, at roughly \$18.50 a hectolitre, a cheque is written out to the Receiver General of Canada and paid. In the United States, at worst, it is paid on a 30-day basis, which gives 45 days in cash flow. When you are talking about taxes of \$2.5 billion, the cash flow advantage of getting 45 days is significant. That is a burden that similarly would have to be addressed.

Those are some of the factors that distort our costs.

Miss Stephenson: How long has that tax remittance program been in effect on a daily basis? Does anybody else pay on a daily basis? Most people do not, as far as I know.

Mr. Morrison: No; they pay when their product is sold out of warehouses. It is not only with our US brewers, but on a product basis in Canada, if you look on wine and spirits as competitive products, that we are treated differently.

Mr. Taylor: There is not much prospect of Canada drinking itself into prosperity.

Mr. Seagram: What is interesting is that the government does not always cash its cheques on a daily basis.

Mr. Taylor: It does not issue them on a daily basis either.

Miss Stephenson: How long has this pattern been in place?

Mr. Seagram: Since for ever, I believe, is as accurate an answer as any.

Mr. Elgie: You can change it all, Bette, if you want.

Miss Stephenson: No, I cannot change it at all. I am just curious to know why it developed this way.

Mr. Seagram: In fact, until the 1970s, the tax was levied at a very early point in production. For many years it was based on the intake of barley. You had paid your tax before you even started the brewing process; it had been levied.

Mr. Morrison: There has been some relief granted.

Mr. Hennessy: Are the distillers in the same position you are in? I understand there is a government inspector there when they start filling up bottles. There are two locks, I understand; the inspector has the key for one and the distiller the other and they open the two together. Then when they distil a quantity for a given day, the government knows how many bottles they have put out. The stamps are bought in advance and put on the bottles. The distillers have to pay in advance.

Miss Stephenson: They can pay their excise in advance of putting the stamp on the bottle, but they do not have to pay it on a daily basis, on the basis of the production of whisky or whatever goes into the bottle.

Mr. Hennessy: But they have to put those stamps on when they are bottling. They pay for the coupons ahead of time.

Mr. Seagram: They pay on shipment of the goods when they leave their bonded premises; that is when they pay the tax. The application of that little sticker has nothing to do with the money leaving that company to government.

Mr. Ferraro: I have a couple of questions that can be answered fairly quickly. What percentage of the Canadian market does the licensed US product compose now? Supplementary to that, what would free trade do to your licensing arrangements?

Mr. Seagram: I will ask Don Twiner of Carling O'Keefe, who is a major licensee, to answer that question.

Mr. Twiner: There is a legal contract with a time specification on any licensing arrangement. However, under those conditions and for the reasons previously stated, one could speculate that the people with whom we have a licensing arrangement suffer the same economic conditions as the general industry and that they would say, "It has been nice doing business with you, but there is no advantage in continuing."

Mr. Ferraro: But you do have a legal arrangement for X years.

Mr. Twiner: Yes, we do.

Mr. Ferraro: What percentage of the Canadian market do those licensed products have? Do you have those statistics, or can you divulge them?

Mr. Twiner: Fourteen to 15 per cent.

Mr. Chairman: That is growing rapidly, is it not?

Mr. Twiner: Yes, it is.

Mr. Ferraro: Another quick question: I notice there are comparative statistics for a case of beer in British Columbia, United States and Canada. It costs \$17.40 for a case of beer in Ontario, I think--that shows how much beer I drink. How much does it cost for a case of beer in Ohio or New York?

Mr. Twiner: Specifically, I cannot answer--

Mr. Ferraro: I am trying to get a picture of how much, in proportion to the amount of taxation you--'

Mr. Twiner: There are interprovincial restrictions that the industry faces. Quebec's distribution system is held up in some quarters as a pretty efficient system vis-à-vis Ontario's. However, on average, a case of 24 bottles of beer in Ontario will sell for 90 cents less than that in Quebec. That reflects some of the distribution efficiencies. Also of note is that the tax take in Ontario is some \$221 million higher than what the Quebec government takes from beer.

Mr. Morrison: In the United States the differential on a national basis--I do not know the case of Ontario--represents between \$4 and \$5 a case. I think I mentioned 17 cents a bottle.

Mr. Ferraro: You are speaking of absolute dollars.

Mr. Morrison: Equal dollars, yes.

Mr. Ferraro: So you have to adjust it by roughly 30 per cent to get a comparison.

Mr. Morrison: Yes. But when you take the American price, convert it into Canadian dollars and compare it with Canadian dollars, on a national average we pay about 17 cents a bottle more for Canadian beer, all of which is represented by tax.

11 a.m.

Mr. Ferraro: The last question I have at the moment, and it is completely off the topic, is one I have been asked and discussed over many a beer. I hope you gentlemen can respond to it.

Why the hell is it necessary for consumers--I am speaking as a consumer--to have to go to two different spots to buy liquor and beer? Has there ever been any serious discussion? What are the reasons that you cannot go to one spot, except if you are up north, to buy liquor and beer? As a consumer, I think it is kind of ridiculous. Has there ever been any serious discussion of distribution being amalgamated, without the fear of jobs being lost and all the rest of the bells ringing and so forth?

Mr. Seagram: Yes, there has been. Of course, this is not a topic that is confined to Ontario; it exists elsewhere.

Mr. Ferraro: In Alberta they do it, I think.

Mr. Seagram: Yes, and they do it in British Columbia. However, you have to remember first that beer is a very bulky, difficult-to-handle and low-value product compared with spirits. The amount of investment required by government in the bricks and mortar of warehousing and retailing beer is quite substantial. In fact, the British Columbia government, as one example, has been working for years to try to get out of the business of distributing and retailing beer. It first moved to take beer out of the warehousing. The liquor distribution branch wanted to get out of the warehousing of beer, and the warehousing of all spirits and wines, and turn it over to private industry.

Second, there have been moves in British Columbia--and I use that as one example because it is so current--to examine ways by which the government could get out of the retailing of beer, which is done primarily through combined stores, some of which are extremely attractive and do a very good job for the wineries, the distilleries and the brewers. They would like to reduce the public expenditure and investment in those facilities; so they have looked at other ways of distributing the product to the consumer, which is just the reverse of what you are suggesting. They have decided to allow licensees, those who already retail beer but for on-premises consumption, to expand their facilities and make beer and wine available for off-premises consumption, or off-sale.

This is not dissimilar to the system that works in Manitoba, where fresh, cooled product is brought to the consumer in self-service stores provided by private enterprise. However, the private enterprise in Manitoba's case is represented by the hotel owners; they build drive-in, self-serve facilities.

Mr. Ferraro: I realize my question was more a convenience question, but the economies of it are obvious. What I was getting at more specifically was whether there has ever been an attempt by the government to say to the Brewers' Warehousing people, "We want to get the hell out of the business of distribution." Have there ever been any discussions of that?

Mr. Seagram: The government is not in the business of distribution, except by regulation. You do not have, except for the modest amounts of our beer that you carry--

Mr. Ferraro: I am talking about the Liquor Control Board of Ontario things.

Mr. Seagram: That is right. However, our investment in Brewers' Warehousing Co., which is a system created at the request and under the control of government back in the 1920s, is in excess of \$100 million just in retail facilities. That is a big investment in Ontario.

Mr. Ferraro: Are you losing money on it? I know the answer to that. I am being facetious.

Mr. Seagram: On the retailing aspect? We operate on a non-profit basis.

Mr. Ferraro: Far be it from me to defend the government, but your presentation almost insinuates, at least to me, that to a significant degree the government is the evildoer. The fact remains that Brewers' Retail is making a pretty good buck, is it not?

Mr. Seagram: I am going to turn it over to my colleagues--

Mr. Ferraro: You do not have to expound on that. What I am trying to say is that there are two sides.

Mr. Seagram: Throughout history, the whole system in each province has been one of a partnership dealing with a market that could be easily divided by political boundaries. Whether it was advertising, sales promotion, marketing regulations, distribution, retailing and so forth, there had been established an equilibrium between the consumer, the government and the brewer.

The brewer could make a profit, the government could generate revenues, the government could control the sale and look after social issues, the consumer could have good access to beer under regulated conditions, and the system allowed the easy and effective return of the container.

You have to look at it as a two-way system and this is where the LCBO does not operate but Brewers' Warehousing does. It is also a system for getting containers either back into the recycling process, with respect to aluminum cans, or bottles back to the brewers. Over the years it has been a partnership and everybody has benefited. Now the rules are being changed. The brewing industry basically is not in opposition to any change in rules, provided they are first well-considered, all the implications are examined and a reasonable time is permitted to put those new rules in operation, especially where they involve heavy capital investment. I do not know whether Mr. Twiner or Mr. Harrington would like to add to that.

Mr. Twiner: I question when members you say Brewers' Warehousing makes a pretty good buck. I think it is important to understand that the BW does not make a single buck. It is a distribution system for the companies. Yes, the brewers make a dollar of profit.

Mr. Ferraro: That is what I meant.

Mr. Twiner: Brewers' Warehousing, as a distribution company, is not run for profit. Go to Quebec and look at a distribution system that is run for profit. You will find the price of beer in Ontario is 90 cents a case less, and the Ontario government takes \$220 million more from the system. It is not just an idle statement when we say the BW is a not-for-profit company. It is a very significant part of the equation to deliver beer to Ontario consumers.

Mr. Ferraro: Thank you for that. I was not implying you should not make a profit. I am all for profit. I am just concerned about the convenience.

Mr. Chairman: What he is saying is that the profit is distributed among the partners.

Mr. Twiner: That is correct.

Miss Stephenson: What he is really saying is that the profit comes from the making and sale of beer, not from the distribution.

Mr. Twiner: Which is a cost to us.

Mr. Cordiano: A further point on your remark on the difference between the cost of a case of beer in Ontario and Quebec, can you analyse that a little further for my understanding? You are saying the Ontario government takes in \$220 million more in taxes. That is in total dollars you are speaking of now? Does that relate to the volume of sales?

Mr. Twiner: No.

Mr. Cordiano: That is just the total dollar figure.

Mr. Twiner: On an equivalent case-to-case basis, I think the figure is \$2.31 a case.

Mr. Cordiano: On a per unit basis, the Ontario government takes in more taxes than the government of Quebec.

Mr. Twiner: Some would say the government is more efficient. Others would say they take more taxes.

Mr. Cordiano: Okay. On the other hand, would the cost of production in Quebec be higher or lower than in Ontario?

Mr. Twiner: I would suggest the costs to the shipping-room floor would be the same through the shipping plan.

Mr. Cordiano: You are saying that if you are producing less because you have regional production facilities in Quebec, their volume of beer, what is produced, is bound to be less than what you produce in Ontario because the market is smaller? Yet you are saying the production costs are the same.

Mr. Twiner: Sorry, I am not following your question.

Mr. Cordiano: I am saying your output is greater in Ontario, what you produce is greater per plant--

Mr. Twiner: Volume.

11:10 a.m.

Mr. Cordiano: The total volume in Ontario is greater, so your plants are producing more in Ontario, Logically, I would assume the production costs would be lower than in Quebec.

Mr. Twiner: No. You will find that the throughput of the major breweries in Ontario, compared to Quebec, approximates the same size. There are a number of smaller regional breweries in Ontario; yes, I grant you that.

Mr. Elgie: Just as an aside, I notice that in Quebec there are no breweries outside of Montreal.

Mr. Seagram: Three breweries supply all of Quebec.

Mr. Elgie: That is what I said; they are all centralized in the Montreal area. Has that produced any economies of scale there? If the hectolitre production is about the same in Ontario and Quebec, has the centralization in Quebec produced any economies of scale?

Mr. Twiner: I have not seen that in any figures I have looked in our corporation.

Mr. Seagram: It is not significant. Also, the production economies are somewhat blurred by the fact that we produce a lot of beer in Quebec as well as in Ontario for export to the United States, so we are all serving the eastern part of the United States out of Montreal.

As I say, the economies-of-scale production costs are very comparable up to the shipping floor. From the shipping dock outwards is where it changes drastically, and you could say that beer is made available through the grocery stores because the government wishes to take less from a case of beer and allow the grocery store operator to make a profit. The profit is at the expense, if you like, of the government.

Mr. Taylor: You mentioned that Brewers' Warehousing had a \$100-million investment in its facilities. Is that correct?

Mr. Seagram: Yes.

Mr. Taylor: You mention the distribution system, say in Quebec, where you sell beer in the grocery stores. Here, I understand, the posture of the industry is to oppose the sale of beer in grocery stores. Is that correct?

Mr. Seagram: Yes.

Mr. Taylor: Could you give me the rationale for that? Presumably, you may or may not recoup some part of that \$100

million if you want to sell the real estate, and you would not have to operate that system, which is nonprofit; the retailing is nonprofit, as I understand it. I am trying to get the rationale for opposing the sale of beer in grocery stores.

Mr. Seagram: You have to recall that there is a distribution system that works in Quebec. It involves agencies that operate warehouses and they are similar to the wholesalers found in the United States. The beer has to get to the consumer in some manner and it goes through a very complex system which is costly and which requires each individual company to invest in its own distribution system.

To make it work and to produce a profit for the Quebec-based brewery, the government has chosen to give up some of the tax revenues that are enjoyed by the Ontario government. The system works but it is inefficient. If there were ways that the breweries could get together and bring about economies of scale and efficiency in the distribution system, the breweries would do so. If you can imagine it, each grocery store is visited by three trucks instead of one.

Mr. Taylor: It is like milk delivery some years ago.

Mr. Seagram: That is right.

The beer is sold under normal retail conditions and all the problems with stock rotation, placement in the store and keeping the product fresh and cool are handled much differently and, in general, not quite as well in Quebec as in Ontario.

Miss Stephenson: What about container collection?

Mr. Seagram: That works reasonably well because the retailer must accept returned bottles. Right now he is refusing to accept returned cans. He will not sell cans.

Mr. Cordiano: Following up on what Mr. Taylor said earlier, I have difficulty understanding why it would be more costly to the brewers if they were going to distribute their product through different channels of distribution than as now set up. You have soft drink manufacturers who have to do the same thing and I have not seen their costs rise over the years as a result. They deliver a low-cost product quite efficiently. So do several other manufacturers of consumer goods. I am wondering why there would be such a dramatic difference to the brewers.

Mr. Seagram: It is unfortunate we do not have Ross Eaket of Northern Breweries with us. He is in both the soft drink and the brewing industry business. I believe this committee eventually will be up in northern Ontario.

Mr. Chairman: We hope to.

Mr. Seagram: I believe he will be appearing before you and that would be an excellent question to pose to him. Basically, he will say, "I will take the brewing system any day over the soft drink system."

Mr. Chairman: What was his name?

Mr. Seagram: Ross Eaket, president of Northern Breweries.

Mr. Knight: Since we are exploring the distribution system, I would like to ask what would happen to the present distributing system under a fair trade--which is what we hope to achieve--or a free trade arrangement with the United States. With them coming into the Canadian market, the Ontario market, would they set up their own similar, parallel distribution system? You obviously are not going to be able to get them to set up here the way Amstel had to set up before it could utilize your system. Do you have a feel as to what would happen? Would the Brewers' Warehousing operation disappear?

Mr. Seagram: No, not necessarily, but you have to look at Brewers' Warehousing in two different capacities, one as a distribution system and another as a retailing system. Basically, the US brewers would have to do exactly as we did. They will have to set up their distribution system, unless the government wants to get into it, as they do in Alberta and BC--it has had it in BC, but certainly in Alberta--and start investing in facilities to warehouse, truck and retail American beer. It would be up to the Liquor Control Board of Ontario to make that decision, but basically the American brewers would have to set up their own distribution system, just as we have.

Mr. Knight: What do the larger breweries do in the US now? What sort of distribution system do they have?

Mr. Seagram: It is basically through a third party, if you like, a distribution network of master distributors and subdistributors and wholesalers, who are doing two things: not only warehousing and distributing beer in a physical sense, but also selling the beer for the brewers. In other words, they make the deliveries and they will have, in many cases, brands from more than one American brewer and brands from several foreign brewers.

Mr. Mackenzie: They are a middleman in the operation.

Mr. Seagram: Yes, and sometimes there is more than one middleman.

Mr. Knight: That is a problem the brewing industry in Canada will have to deal with. I would suspect you will lose that monopoly on the distribution system under a free trade arrangement.

Mr. Ferraro: Not necessarily.

Mr. Seagram: Yes, not necessarily.

11:20 a.m.

Mr. Chairman: If not, they will have to pay lower taxes.

Mr. Seagram: You used one word which is used quite frequently, that this is a so-called monopoly. Monopoly is a creature of government, if there is one. We say it does not exist.

Mr. Taylor: Cartel.

Mr. Seagram: Another nice word. A monopoly does not exist because there is access now through a system that is independent of the Brewers' Warehousing, and that is the Liquor Control Board of Ontario.

Mr. McGuigan: I wanted to hear more about the business of malting barley. I do not understand why you say you pay twice the price for malting barley. I understand you use western barley exclusively. There is no Ontario barley being used. Those two products are competitive with one another between the United States and Canada. Why do you say you pay twice as much as the American breweries?

Mr. Twiner: I believe it is a matter of the social policy of the government. There is a two-price system there. You would pay more domestically for grain products through the Canadian Wheat Board than they would sell for internationally, for example.

Mr. Elgie: Export prices.

Mr. Twiner: Yes.

Mr. Morrison: The Canadian Wheat Board deals on an international basis as a commodity trader. In Canada, if you want to buy malting barley, you have to buy from the board and there is a premium price for malting barley. It is an indirect tax.

Mr. McGuigan: But you are getting a premium product.

Mr. Morrison: American brewers buy it at the world price, the same price.

Mr. Elgie: They do not get much foam on their beer. I saw it on their sign.

Miss Stephenson: There was significantly less. Was that the tax?

Mr. Morrison: They can buy the same product, the same malting barley, for world commodity prices which, over the last five years during which we sampled it, worked out to \$2.21 against the \$5-plus that we paid.

Under the Canadian Wheat Board Act, in this little blue book under appendix 2, there is a summary of the situation that applies on malting barley which you might find helpful. It is a practice, which appears to have been an indirect tax, that the brewers would pay a premium price which would return more money to the farmers.

Mr. McGuigan: My understanding of selling malting barley is that you get a premium product. Not all barley will make malting barley. You are going to have an inferior product with feed barley, but if it has a big, wide, plump kernel and there is a lot of carbohydrate and starch in it, because it has had a good growing season, that is a premium item and you people are willing

to pay a premium price because you are going to have a much higher yield on it if you are not buying husk and--

Mr. Morrison: All we compared was the world price for malting barley, not for feed barley. It was apples and apples. We took the Canadian price for malting barley being charged by the wheat board and converted malting barley on the Chicago exchange. The feed barley did not get into that equation.

Mr. McGuigan: I will have to do some more work on that, because I do not understand it.

I would like to point out to the committee, leading to a question, that probably one of the number one targets the United States would have in a free trade agreement would be the brewing industry. The average tariffs in Canada run about five per cent on our items, and in the United States it is only about 2.5 per cent; so there is only about 2.5 per cent difference between our two countries, and you have to ask where are you going to make gains as far as the United States is concerned. I would assume from their side that the brewing industry is one of their number one targets.

Then you run into the fact that the Americans are saying in many areas: "We have the best system in the world. We have this open and free market, we have the US enterprise system, it is the best system in the world, and all the rest of the world has to change to our system." They are saying that in the case of lumber, and I could go into the differences between their tenancy regarding lumber lands and our tenancy system, there are two different systems.

For instance, in the United States about 90 per cent of the lumber lands are owned by the big lumber corporations and 10 per cent are private. In Canada it is exactly the reverse. About 90 per cent of our lumber lands are owned by the crown and only a very small percentage are owned by the state.

They look at our stumpage system, the way we collect stumpage, and then they apply a countervailing duty against that stumpage, saying we are being unfair, whereas we are simply carrying through a different philosophy of ownership. It is one that I doubt we would be willing to change. I doubt, too, that we would be willing to change the system of each province insisting that breweries be in that province.

It goes back to the fact that we have far more powers in our provincial governments than they have in their state governments; their state governments are very weak in comparison. It also goes back to our geography in that they have a fairly uniform geography in their country, whereas we just have this narrow strip along the southern border that is really productive and habitable. We have organized ourselves differently in Canada.

In Canada we also believe in the matter of equalization. We try to maintain somewhat equal opportunities in Newfoundland, in the Maritimes, in Quebec and right across Canada. Central Canada sends money to both extremities of the country to try to maintain that equalization, whereas they do not do so in the United States.

This leads me to the fact that you have been dealing with the federal government. You see today that the Macdonald commission is coming out and recommending free trade. I guess I should be careful in making that statement, but that is the headline, that it wants free trade.

Do you get any feeling out of Ottawa that Ottawa is really willing to scrap or change our whole system of government in Ontario in order to accomodate the United States in a free trade arrangement? Do you have any handle on or any feeling for that? I think brewing and lumber are probably right at the heart of this problem. Do you get any feeling from Ottawa?

Mr. Morrison: To comment, that is at the heart of our industry's presentation. We have gone along and developed the industry over a couple of hundred years, playing according to rules that we understood were established by the people with the jurisdiction over sales and distribution of the product, which were the provinces. This dictated that the industry evolve in a certain way that made it less efficient than it would have been had we been totally free to develop the industry on a purely economic base.

Mr. Taylor: In some cases more efficient, though, if you are talking about the distribution.

Mr. Morrison: There are offsets, I would acknowledge. But in the broad picture, one of the concerns of the industry, clearly stated here this morning, is that if you are going to change course 180 degrees after all this time, with the investment and the systems developed, it takes time. In fact, from Ottawa's standpoint, given the constitutional jurisdiction, as Norm said, as a prerequisite to talking about free trade with the Americans, we should really be talking about the implications of free trade in Canada. It clearly is out of sequence to talk about free trade on a continental basis when we do not have free trade in Canada.

11:30 a.m.

To pick up on your point, if the provinces want to retain their brewers, are they going to allow Anheuser-Busch out of St. Louis, Missouri, with a plant that has the capacity to produce all the beer consumed in Canada from one facility, to service British Columbia through Newfoundland but require Labatt's or Molson's or O'Keefe to have a brewery in each of those jurisdictions? It does not make any sense.

Mr. Chairman: Mr. McGuigan is suggesting that we can avoid or perhaps put the brakes on an agreement in Ontario by continuing to require that the breweries be built in the province.

Mr. McGuigan: I am sorry, Mr. Chairman, I was not really suggesting anything.

Mr. Mackenzie That was what I got out of it.

Mr. McGuigan: What I am suggesting is that if we are going to have free trade with the United States, we will go

largely on its terms. Do you get any sense that the federal government is willing to go on those terms? You have been dealing with this same question that is being put to us today. Do you have any feelings on where they stand on it.

Mr. Morrison: The position of Mr. Kelleher--and I think Mr. Mulroney's public statements have reflected it--is that they have posed the problems, they have asked the questions and the industry has been meeting with them. They have had responses to the discussion paper. There are several interdepartmental committees at work. The whole issue goes before cabinet some time later this month. I do not think the government in Ottawa has made a decision as yet. That is a personal observation.

Mr. Ferraro: Are you saying since the last election?

Mr. Morrison: Yes.

Miss Stephenson: Could I report that this morning on an interview broadcast on our national people's airwaves the Prime Minister told Peter Gzowski that there was absolutely no way in which he would lead Canada into discussions with the United States that were going to be detrimental to the traditional social system that has been developed in Canada. I would hope we can take his word on that.

I do not think there is any--that I have heard at this point--indication from the federal government that it is going to scrap equalization payments, the health care system and everything else in order to indulge in free trade with the United States. That has not been part and parcel of this. It sure has been part and parcel of a lot of the scare tactics we have heard of even talking about whether or not we should enhance our trade with the United States.

Mr. Chairman: But surely we are hearing, Dr. Stephenson, that the more we pry into this whole issue, the more we are finding that almost everything ends up being a nontariff barrier. I was not kidding when I said that if we have free trade in beer, we are going to have to reduce our taxes on it incredibly, judging from the information you have brought us.

Mr. Elgie: No, they will just move out.

Miss Stephenson: That is right.

Mr. Seagram: If I may respond to the issue you raised, Mr. Chairman. I guess the one factor that affects our thinking, as we have mentioned before, is time. Going back to the initial question, if we were in a position to compete--and we believe given time and money we could--then we would like to compete because that is a big, big market down south of the border.

We happen to believe that in Canada we brew very fine beer. We have already proven that at a premium price we can sell it very well down there. Put us in a position to produce beer economically over time and we will take on the Americans in their own market. But time is the problem.

It means that the provincial governments are going to have to come to grips with their priorities with respect to the brewing industry, and only the brewing industry, because it is the only industry in Canada that is in this position. Is it the brewing industry's purpose in a province to produce employment, to generate tax revenues, to provide convenience for consumers, or is it the government's role also to exercise various social controls that affect the consumption, use and misuse of the products?

We are an industry that has, right now, three breweries in Newfoundland, four in Saskatchewan--a province of a little over one million people. They are hopelessly uneconomic in worldwide terms. They used to be economic in Canadian terms. There are 17 operating breweries west of the Ontario border. No way in a free trade environment can we contemplate continuing to operate those 17 breweries.

Mr. Chairman: As an initial step, would you favour unilateral removal of tariff barriers from Ontario even if other provinces did not do it? I am looking for an answer from you as Ontario brewers.

Mr. Seagram: Ontario already operates with a lot of common sense with respect to free trade issues within Canada. All of us are able to optimize certain aspects of our production facilities by exporting beer from Ontario to other provinces and bringing in beer sometimes from Quebec and Manitoba and serving Manitoba and parts of the west from Ontario. It is on a relatively equalized basis. Also, Ontario is the prime beneficiary of our export sales to the United States.

We have some of the barriers to rationalization of production already lower in Ontario than exist elsewhere in Canada. In Saskatchewan, for example, the barriers are as high as they have ever been. You simply cannot ship beer into that province under any condition except under the condition of being handled as an imported product. Some of us produce licensed products for which there is a market in Saskatchewan but which we cannot afford to produce in Saskatchewan. Therefore, that market is denied us.

Ontario is a different case. Ontario has been very progressive in many respects in assisting the Ontario-based brewer to flourish through the years. Because of a sensible partnership that has existed between the government and the brewer, through the years Ontario has been the most successful in return on investment, profitability, convenience to the consumer, control of the sale of products in the most successful market that could be found anywhere in the world. That is perhaps changing, and there are signs on the horizon that it could change even more, we believe, to the detriment of the people of Ontario.

Mr. Elgie: This may be a little repetitious of what has been said, but let me go over it for my clarification and for any comments from you. The reason for the cost differential between the price of beer in the United States and here narrows down to a superb mechanism we have in place for farmers, the Canadian Wheat Board. The decision about that is a public policy decision.

Secondly, there is the amount of taxation there is, directly and indirectly, through our social support systems, unemployment insurance and so forth, plus the direct tax. Finally, there is the issue of productivity, which relates to an industry that constitutionally is controlled by the provinces, not by Canada. The provinces have said that if one wants to distribute beer in their province, one must have an investment in that province. Each of the provinces say that, and anybody is free to do that.

The only impediments to distributing beer in this province and in each province is that you must put in an investment in this province, employ people and pay the taxes that go with it. Having done that, you are free to take part in the system, setting aside the distribution process. Failing that, you can distribute, subject to the listing regulations, through the liquor control boards in the various provinces, or you can sell your product through a licensing arrangement.

The impediments, if there are any real ones, are that you must be interested in this province. That is so with each province in the country. You must put some money in and invest it. That is another public policy decision, setting aside the social reasons that may have brought it about a few years ago. Is that an accurate assessment of the whole issue?

Mr. Seagram: That is a very good one.

Mr. Elgie: If we had free trade within the country, for example, each province would have to make the decision it would give up that requirement that there be an investment and then let the free market decide where it would be least expensive to produce beer for Canada. Is that right?

Mr. Harrington: That is right.

Mr. Elgie: There would be rationalization, closures in obviously uneconomic provinces and uneconomic parts of each province. We know Ontario is one of those. We have endeavoured to keep Northern Breweries Ltd. as a manufacturing base in the north. Even when we talk about free trade in Canada, we are talking about affecting provincial employment, salaries and income through tax mechanisms.

Mr. Taylor: And regional employment.

Mr. Elgie: Yes.

If there were any willingness by each province to give up the requirement that companies show an interest by investing, then surely, with the higher taxes you have to pay here, you would simply set up a plant in Detroit or Buffalo and ship it across. Would you not?

Mr. Seagram: It is an interesting question. We have all done our work on it. If we had Canada to deal with all over again, given a national market instead of little discrete provincial ones, how would we do it? I do not think any of us has got too serious about supplying from the United States.

Mr. Elgie: You mean you realize common sense would prevail.

Mr. Seagram: It is a very interesting question and it would be a nice one to tackle. Certainly the prospect would be there.

Mr. McGuigan: You would be entering a market that is already over capacity, would you not? You would be going in with a new plant to compete with ones which are already over capacity.

Mr. McFadden: You could serve Canada from the United States.

Mr. Taylor: That is the point.

Mr. Seagram: You could serve Ontario and Quebec very nicely from a large world--

Mr. Elgie: Buffalo is handy for Quebec and Ontario.

Mr. Morrison: There is a useful follow-up to your point on the preparedness and willingness to come into this country and play by the rules. I attended a hearing in Washington in January this year. One of the active breweries, to get into Canada on its terms, is the Heileman Brewing Co. A question was put directly to its representative by a panel hearing his complaint. He was focusing on the Brewers' Warehouse system and how unfair and discriminatory it was to him because he could not distribute through it.

They said: "We understand that if you are a Canadian brewer outside of Ontario you cannot get in either, and it is fair and reasonable, since any Canadian brewery wanting to distribute in Ontario through the Brewers' Warehouse system has to build and brew in Ontario. That is all you have to do. Does that not make sense?"

He said: "It would make sense if you could build a brewery and sell the products across Canada. It would not necessarily make sense to build a brewery in Canada and isolate yourself to that one province." From their standpoint, they have looked at it and, given scale, efficiency, and economy, they say it is not an option.

Mr. Elgie: Let us take another tack for a brief response. It has been my impression that brewers, particularly those who tend to be significantly Canadian controlled, have considerable investments in other Canadian industries and manufacturing companies. Is that an accurate statement?

Mr. Seagram: Yes it is.

Mr. Elgie: Could you give us some idea what types of investment Canadian-controlled breweries have in this country, not in money but in the types of industries involved?

Mr. Seagram: You may wish to turn to Phil Harrington of Labatt's for that reply.

Mr. Harrington: Ogilvie Mills Ltd. is wholly owned by us. There is Catelli Ltd. Ault Foods Ltd. is a holding outfit for Sealtest Dairies. We are probably the biggest food-based outfit in Canada, including Chateau Gai Wines and everything else.

Mr. Elgie: When I was out in British Columbia looking at their brewpub situation, I noticed their raw product was shipped in from Ontario. Which company would be involved in that?

Mr. Harrington: Who was this again, sir?

Mr. Elgie: I was out looking at a brewpub in Victoria, British Columbia. I saw their product; they said that they bought it from Ontario and that it was controlled by a brewery.

Mr. Chairman: You were looking at a what?

Mr. Elgie: A brewpub.

Miss Stephenson: It makes its own brew.

Interjection: It would be Canada Malting--

Mr. Seagram: It would be raw materials they would be using. They would buy them from Canada Malting.

Mr. Elgie: So there is significant investment in other Canadian industries by the brewing industry, particularly those that have Canadian control.

Miss Stephenson: They are also primarily in the food area, but I understand there are other holdings by other brewing interests, which are not necessarily in the food area.

Mr. Twiner: We have a significant investment in the Toronto Argonauts.

Miss Stephenson: Talk about your winning investments.

Mr. Twiner: The Blue Jays. We also have a substantial oil and gas company out west, Star Oil and Gas, as well as holdings in the wine business across Canada and some international companies.

Mr. McGuigan: Are there any tobacco holdings?

Mr. Twiner: We do not have tobacco holdings. We are held by a tobacco company.

Mr. McGuigan: You got out of the tobacco?

Mr. Twiner: Correct.

Mr. Seagram: In Molson's case the prime interests are in two main areas; one is retail merchandising through Beaver Lumber Co. and that wonderful hardware store in downtown Toronto called Aikenheads, as well as Diversy corporation, which is a worldwide company specializing in chemicals for the institutional,

sanitation, food preparation and hotel industries. We also own a very attractive, very successful hockey team.

Mr. Twiner: We have a very attractive, very successful hockey team in Quebec City, if we may have this little bit of rivalry.

Mr. Chairman: Is concern about the future of brewing in Canada one of the reasons that this horizontal integration is occurring? Is it fair to say that this is a long-term decision based on the fact you may end up selling more milk than beer? I think you are selling more milk than beer already.

Mr. Seagram: It goes back perhaps to the 1950s, when Canada went through quite a consolidation of brewing companies-- some were a rationalization of facilities on a regional basis-- and to the early 1970s, when the brewers, as well as tobacco companies looking to the future, saw modest growth in Canada and with international aspirations not very well developed at the time.

As a result, there was a move in the late 1960s and the early 1970s to diversification by the three prime brewing companies. Each took a different approach, and each of us has had our successes and some failures in our diversification. Labatt's concentrated on the food industry. Molson was a little more widely diversified at one time, being in manufacturing and a variety of different businesses which have since been divested. Carling O'Keefe looked very closely and became heavily involved in the oil and gas industry.

It was the prospect of a stagnant growth. What is interesting is that we were perhaps 10 years ahead of our time. The brewing industry still provided strong growth through the 1970s, and it was not until towards the end of the 1970s that the stagnation started to set in to parallel the situation in the United States and in Europe. It is a worldwide phenomenon, except for the developing countries.

11:50 a.m.

Mr. Cordiano: Correct me if I am wrong, but does the industry not have production facilities set up in the United States, or do we produce in Canada and export to the United States?

Mr. Seagram: We all produce in Canada and export to the United States. We have no manufacturing operations in the United States.

Mr. Cordiano: Is it not feasible to set up production facilities there? I am just wondering why you would not want to do that as part of your strategy.

Mr. Seagram: It is a complex question and is as much a marketing decision as any. The most successful imported brand in the United States is Heineken. Heineken is shipping an awful lot of water over water to be able to be successful in the United States, if I could use that company as the example. When asked on many occasions why they do not establish a brewery in the United

States, they say: "It would destroy the image--the mystique, if you will--that is attached to an imported product. It would no longer be imported. It would no longer command the attention, being a domestically brewed product."

This has happened with a variety of other international brands. Even under licence, rather than setting up their own brewing facilities, some have tended to fail even though they had enjoyed good success as an imported product. The Danish brand Tuborg is probably a good example of that.

Mr. McGuigan: It is like VO whisky in the United States?

Mr. Seagram: Yes. If the Seagram companies established a distillery to produce VO in the United States, it would become a domestically distilled product rather than imported from Canada. I think that brand would disappear very rapidly.

Mr. Ferraro: I have a supplementary about the scenario Bob presented you with, along the lines of Joe's question about establishing a plant there.

If there were free trade, it would be a consideration of the breweries to put a plant in Buffalo or wherever to distribute throughout Canada. Would it not be an equally possible scenario, because of your capital investment in the provinces and in this case Ontario, to expand your provincial base?

You said you could compete over a 10-year period. Could you not perhaps expand your provincial base and distribute in the United States as opposed to building a plant there? Is there not an equal argument for that?

Mr. Seagram: There is an equal argument. As I suggested earlier, I do not think any of us have looked at that option very carefully, but the prospect is there. The interesting thing is that Ontario starts from a much more secure base, because we do have some large facilities here that could be expanded.

Mr. Ferraro: Because of location and all the rest of it.

Mr. Seagram: Yes. If you could combine in one facility your needs for both the Quebec and Ontario market, you would have a very competitive plant. It could take on Americans in their own market under equal distribution and retailing systems.

Mr. Ferraro: Given time.

Mr. Seagram: Given time.

Mr. Elgie: Given that the province is willing to give up her original part of the business.

Mr. Mackenzie: I would like to take the discussion back to where Mr. Elgie was coming from a few moments ago, back to the beer industry in Ontario. Did I hear you correctly in your comments on free trade and the restructuring that would be necessary? Did you say we could lose up to 63 per cent of the jobs?

Mr. Seagram: That was a national figure.

Mr. Mackenzie: Do we have figures that apply to Ontario? Is it the same ball park, or what are we talking about?

Mr. Morrison: When we looked at it as an industry on a national basis, it was impossible to get down. There are too many decisions that have to be made that have no valid base. When we use the numbers on a scale of, say, a reduction from 39 to 11 breweries, and we talk about the employment reduction, it must be understood by members of the committee that is a mathematical extrapolation of the US standards imposed by their performance in order for us to be competitive.

We put a caution in our brief that it is just that, some number-crunching. When it comes down to practical application, you have to look at it very carefully.

Mr. Mackenzie: What you are telling us then, without being able to verify the 63 per cent, is that you are facing a substantial job loss with the rationalization that would be necessary to operate.

Suppose we ended up with either a free trade agreement with the United States or opening it up and we did not have the restructuring; what would happen to the 10 operations in Ontario? Would several of them be subject to going under?

Mr. Seagram: That is a distinct possibility. I would not like to be more specific, but yes. Mr. Twiner raised the interesting issue when it comes to American brands already licensed in Canada and how they would be treated because, as he pointed out, in the Ontario market they represent up to 14 per cent of the beer volume sold.

It is a tricky question, but you would have to look at the smaller units, whether they are in Waterloo, Sault Ste. Marie or Thunder Bay. Obviously they would be the first to go.

Mr. Mackenzie: Neither of these scenarios takes into account the other suggestion that was made by Mr. Elgie, that you might very well have a decision, under rationalization, that new plants should be put up across the border.

Mr. Taylor: Or in Quebec.

Mr. Mackenzie: Or in Quebec.

Under a free trade agreement, are the small regional operators, which you referred to briefly, even more vulnerable than the major plants, either with or without restructuring?

Mr. Harrington: Ours are, because they are older and smaller. In our operation, in what I will call central Canada, we have five breweries: three in Ontario, one in Quebec and one in Manitoba. Under true, wide-open free trade, we have to assume that there would be only one.

Mr. Mackenzie: You would go from five to one?

Mr. Harrington: I cannot say for sure, but common sense would indicate that.

Mr. Ferraro: Would a phase-in period be 10 years?

Mr. Harrington: That is what we are all asking for.

Mr. Ferraro: But would you still have the same job loss?

Mr. Mackenzie: We do not know what the phase-in period would do. The point I am trying to get at is the bottom-line situation we are facing immediately in respect of the request that we open up trade in this province. What you are clearly telling us is that there is no validity in the "small is beautiful" argument, that we have a situation in Ontario where, with rationalization, three or four would remain.

Mr. Harrington: Probably.

Mr. Twiner: Another element of this which deals with another aspect of government public policy is the environmental aspect. If you look at the statistics on the American market, you will find the containers are nonreturnable glass bottles and aluminum cans. Given that scenario where nothing has to come back, it is logical to ask, if you do a radius around the free trade market, where would you want to be? You would want to be in the centre of that radius.

Mr. Mackenzie: What we are looking at is a potential reduction from 10 operators in Ontario to three or four. We give up the small operation, no matter what value it has regionally or nationally, and we decide that once again we are going to be controlled by the argument that bigger is better, by maybe three major operations.

Mr. Harrington: The only hope for a smaller plant would be if it became even smaller and supplied that area only.

Mr. Mackenzie: Or became a real specialization, I presume.

Mr. Harrington: That is exactly right.

Mr. Twiner: If you look at the history of the US beer industry, from which we assume the total continental United States is a free trade market, that is precisely what happened. The small people just disappeared and it became a concentration of power.

Mr. Elgie: As I understand it, the small breweries did not survive very well in the United States.

Mr. Twiner: No.

12 noon

Mr. McFadden: The submission this morning is interesting. First of all, this industry is the most regulated

manufacturing industry in Canada by a country mile. Every other group that has appeared here at least has talked about the impact of free trade and tariffs without all this provincial regulation across Canada.

It is clear that all this regulation was put in place not for economic reasons, as I understand it. There were tax reasons, but a lot of it was social objectives, which grew out of an earlier temperance period where it was felt to be socially desirable to maintain and control people who were manufacturing beer and other spirits.

As a consequence of all this regulation, we have a situation in Canada where we do not have what you would even loosely call free trade. As I understand it, the witnesses have said this morning that they are suggesting first of all that the Canadian government and/or the Ontario government should spearhead the development of free trade in the brewing industry. We would have to make a step in that direction. That is accurate, I take it, and you have made that very clear.

This would be the first delegation we have heard from that has suggested a major change in how Canada handles its trade arrangements internally. It also has a potential impact far beyond anything this committee has been thinking about in terms of the regulation of spirits and how that is all going to be marketed, manufactured and so on. That would presumably have to be a precondition in our position before we would move on to free trade discussions at all with the United States, as I understand it. I think that is what you have been saying this morning.

I am curious about one thing. We have heard about the American market and the monster breweries they have down there, and I assume that any one brewery is servicing a market larger than Canada. Are you aware of any nontariff barriers that might exist in any American jurisdiction? We are going down to visit the US people next week, and we are going to have a chance to meet government officials. In your studies of the free trade issue and your work in relation to the potential countervail application in the United States, are you aware of any nontariff barriers that exist in the United States?

Mr. Seagram: It is a matter of degree, whether it is a real barrier. We do have access to each state with our products, provided we adhere to the rules that prevail in each state, and they vary. Labelling and packaging restrictions are quite severe. Those cause us and the American brewer the same sort of inefficiencies, but I could not say they were real barriers; they are hurdles.

What we are saying about Canada is that there are some hurdles. However, when it comes to Ontario in particular, the American brewer has access to this market and to each market in Canada. There are hurdles--call them nontariff barriers or what you want--but they are not denied access. We are not absolutely denied access to any of the 50 states of the United States, but we do have our problems marketing our beer there in adhering to the variety and diversity of regulations.

Mr. McFadden: From state to state?

Mr. Seagram: Yes.

Mr. McGuigan: In regard to hurdles, perhaps it is in the information you gave us, but what is the Canadian tariff against American beer coming in here, or is there any tariff? Also, what is the tariff going the other way?

Mr. Morrison: It is a minor problem, the tariff problem. I think both industries have stated it is not the issue. It is in the nontariff barrier area. Canada charges the equivalent of 15 cents against six cents that the Americans charge Canada.

Mr. McGuigan: Fifteen cents per what?

Mr. Morrison: I am trying to recall the unit. That would be per barrel, I would think. As a percentage of the cost on a consumer basis it is not significant, to the point where the Americans said the tariff was not the basis for their complaint.

Mr. McGuigan: Right. We have no tariff.

Mr. Morrison: It is very small.

Mr. McGuigan: Very close to no tariff at present.

Mr. McFadden: On free trade with the United States, if you look at duties, we are almost there now. Even if we were to remove the duties, it would not have much effect one way or the other anyway.

Mr. Morrison: No. Six cents US per gallon is the cost to Canadian breweries going in and 15 cents in the other direction.

Mr. McGuigan: It is pretty insignificant.

Mr. McFadden: Our main concern here is the way in which this industry has developed. If we were to head towards a situation where the Americans would have unlimited access through their distribution system and so on, there would have to be a massive restructuring, as Mr. Mackenzie has pointed out, with an attendant, inevitable loss of jobs in order for the industry to survive.

Mr. Seagram: That is true. There is one factor we have to keep in mind. Mr. Twiner raised it. The degree to which we would be affected on the labour front would be highly dependent on the rules and regulations governing the packaging of the beer. We have in Canada a system that works darned well in collecting, returning and reusing bottles and collecting and recycling cans. The American system is not based on that, with some exceptions, and the exceptions are growing.

Mr. Elgie: You would have to look at returnable containers. You would have to require that they import into this country only returnable containers and they would have to set up a return mechanism in the province for bottles they were not going to reuse any more anyway.

Mr. Seagram: Which does not now exist. We are talking about nontariff barriers. We have deposit laws to meet in various states. There is no deposit law that affects the American product in Canada. Try taking your empty bottle of a Mexican brand or of Heineken back to the LCBO for a return and you will see what reaction you get. But any beer consumer of a Canadian product can take his bottle back anywhere else in Canada and get his deposit.

Miss Stephenson: The next step is obviously a recycling mechanism in the LCBO.

Interjection: And in the United States.

Mr. Ferraro: I am thinking of a free trade scenario and I keep thinking about Amstel Breweries not being here. Are there a lot of other brewers in the world that, if there was a free trade situation between Canada and the United States, would want to set up production either in Canada or the United States? Then of course we are into the rate of exchange and all the rest of it.

Mr. Seagram: There could be. One is in the planning and development stage in Quebec. It is partially owned by the Artois group in Belgium, a very large brewery in Belgium. The Japanese are very successful brewers with very large, highly-automated breweries. Their technology is first-class. They could be interested in being able to look at the North American market in total. Yes, there are some.

12:10 p.m.

Mr. Ferraro: Which argument is prevalent, though? Do they come to Canada in that scenario or do they go to the United States?

Mr. Seagram: I do not know. The question they have to answer is the question that was posed earlier: what does it do to your existing position in the market as an import in converting it to a domestically brewed product? The history in the United States has not been good on that score. There have not been successful conversions, and this is why I think the Japanese, who enjoy a decent share of the US import market, have hesitated to build a plant.

Mr. Ferraro: Would our own breweries not argue the opposite, though, with the licences?

Mr. Seagram: They could.

Mr. Ferraro: I do not think Miller and Bud are suffering.

Mr. Twiner: Again, they are in what we would term a more popular-priced segment. If you go the other way, O'Keefe has what is perceived down there as a premium product.

Interjection: Or Canadian Club or something.

Mr. Twiner: With all the attendant mystique of brewing a premium product. A specific experience in our own company was that

we failed quite badly in owning US breweries and producing a popular-priced product in the United States. We had to sell those breweries.

Mr. Ferraro: But in fact you are not producing any difference in price in Canada.

Mr. Twiner: Mr. Seagram's point is that there is a product perception difference.

Mr. McGuigan: Moosehead beer is doing pretty well.

Mr. Morrison: Or Heineken and Amstel. When the Heineken group moved into Hamilton, it bought an existing brewery and continued to produce the brands here, but it did not produce Heineken for either Canada or the United States and it did not produce Amstel for the United States. As in the case of Heineken, it still ships Amstel from Holland to the United States, and to develop its US access it developed a new brand that was not in Canada or the United States and sold it as an import in the United States.

Mr. Cordiano: Under a free trade agreement you would not price at a premium if you were exporting that. Is that correct? If you are going to export--

Mr. Harrington: You could for the image of the brand.

Mr. Cordiano: But that would restrict you to that segment of the market. That is what I am saying. It would be three per cent, as you stated earlier, and that would probably not offset some of the loss of share in the Canadian market; therefore, you would have to make up that segment of share in the US.

Mr. Seagram: Your pricing would be more a marketing consideration than a production consideration.

Mr. Cordiano: Absolutely.

Mr. Seagram: Price is a very important marketing tool in the United States at both ends of the scale: popular-priced or discount beers versus premium-priced beers, such as Michelob and others that are produced in the United States. But it would not be cost driven; it would be marketing strategy that would determine your price.

Mr. Cordiano: Would the industry be able to capture enough of that US market under free trade conditions? We are looking at what might happen to the industry in Canada as a result of free trade, but how would you fare in the US market? You said you would be competitive in a production capacity.

Mr. Seagram: If we could be competitive on the production side, there is a case to be made for the Canadian brewery in the United States. We are confined to relatively few of our brands being marketed in the United States, but we all have quite a stable of brands here in Canada. We could perhaps develop

a strategy that would allow us to compete, because we have the production efficiencies in the mainstream segment, and as well be able to continue to produce for the premium-priced segment.

It opens up all sorts of possibilities. As I say, we have no concerns about being able to compete if we are able to produce on an equal basis.

Mr. Elgie: That little statement is the interesting one. To be able to compete means that the supported price of barley would have to be looked at.

Mr. Seagram: Yes.

Mr. Elgie: The tax that is paid on the products here would have to be made competitive. So we are talking not just about rationalizing where it is produced but also about putting you in a competitive position vis-à-vis the original product, barley, and vis-à-vis the tax structures in this country.

Mr. Ferraro: Do not forget the wages.

Mr. Elgie: The wages too. Plus the bottle issue had to be another issue.

Mr. Seagram: We have always worked as partners with government in this business and I foresee we still have to work our way through this as partners in order to make it possible for us to compete and be competitive.

Mr. Elgie: If those partners want to help you compete, they would have to change those particular aspects of your problem, would they not?

Mr. Seagram: That is right.

Mr. Mackenzie: More tax dollars.

Mr. Elgie: Then get the taxes from somewhere else.

Mr. McGuigan: I want to try something. Given the fact there is virtually no tariff now and we are not talking about free trade--so many people have mentioned free trade in the sense we are simply going to eliminate the border and move any product any way we want to. We are really talking about enhanced trade. It is negotiating freer trade but not totally free trade.

As Miss Stephenson said this morning, Mr. Mulroney answered a question by saying he is not going to dismantle Canada. He is going to continue our social and economic programs, and each province will have input but will not negotiate this deal with the United States. It is Canada that is negotiating, not Ontario, Alberta or Quebec. Nevertheless, we think our word is going to be listened to in Ottawa. It would appear to me the brewing industry is in a fairly strong position in this whole matter. We will not easily give up the position the brewing industry has or the provinces have. We are probably in a fairly strong position in these negotiations.

Mr. Seagram: I would hope you are right, but we do feel vulnerable. As has been raised, we are quite a visible target for the Americans. Action is being taken by individual brewers filing a formal complaint. I know it is in draft form. Such a complaint, I understand, ultimately receives the attention of the President. We do feel in jeopardy.

Mr. McGuigan: Does that call for countervailing?

Mr. Seagram: Yes, that could be a prospect. Mr. Morrison can comment in better fashion, but they could impose real barriers to the Canadians.

Mr. Twiner: Let me observe too, we have seen some federal governments finding it very easy to give away a provincial bargaining chip in the interests of the Dominion. When you deal with huge issues like automobiles, lumber and oil and gas, it is very easy in the process of negotiation to put a highly popular item like beer on the table, regulated extensively by the provinces, and use that chip at a federal level, impacting tremendously on the province.

Mr. McGuigan: Since the brewing industry is pretty strong in Quebec and the federal government remains in power pretty much by its Quebec support--

Mr. Elgie: Politics again.

Mr. McGuigan: --you are probably in a fairly strong position.

12:20 p.m.

Mr. Morrison: The fact that it has to be assessed is part of our concern. What Mr. Twiner says is perfectly true. The US government is not restricted to taking retaliatory action on equal products. They can say, "We do not like the way you are trading beer so we are not going to allow your hogs in," or "We are going to take it out on lumber." They may well not bother to go after beer in the short term. They will apply the pressure where they get the heaviest response.

There is no way to anticipate how the Americans, who are very good negotiators and look after their interests, may apply their unhappiness over this beer situation. You cannot simply say, "We might be better off to forgo that--since 10 per cent of our sales are in the United States--and look after our home market and adjust accordingly." The Americans can apply pressure on this economy and this country in a lot of other areas.

Mr. McGuigan: We let their corn and soybeans in here free. We could very easily--

Mr. Ferraro: Back to the barter system of 1985.

Mr. Morin-Strom: I have a question on the issue of rationalization and what the Canadian industry might do to become more competitive if there is a move towards a free market in beer.

From my understanding of the way most businesses operate, they would not lightly take to the idea of spending \$2 billion, as you have suggested would be necessary to put in modern, efficient facilities. The companies would look very closely at what other alternatives are available. Would not one of the prime alternatives be to purchase, or lease on a long-term basis, some of that underutilized capacity in the northern United States, particularly the mothballed plants?

Mr. Seagram: The Miller plant, which is the mothballed plant in Ohio, could be an attractive proposition. It is pretty darned expensive and it means we would turn our back on existing investment. But we have learned how to do that. We have been closing breweries over the years--very infrequently, but it has been happening--in British Columbia and in Saskatchewan more recently.

But the answer is yes. It would be a very interesting proposition to take surplus capacity that already exists for the North American market, especially if it is a more efficient capacity, and use it to replace outmoded, small-capacity production which is inefficient in its own right and that does not have the benefits of economies of scale.

Mr. Morin-Strom: You say it might be expensive to buy. Presumably that is on the basis of it being expensive for Miller to build it. But when a company is not utilizing a facility it will often sell it for a much lower price than the replacement cost of that facility.

There might be another approach to attack this problem. It has to do with this concentration of the industry size in the United States and the fact even the sixth-largest brewer is double the size of any of the three major Canadian breweries. The move might be in the direction of a US brewery buying up one of the three major Canadian breweries--or all three may get bought up in the long run. The US breweries would see that as an opportunity to get the goodwill of the name, the reputation of the Canadian product in our market, and be able to utilize their facilities, perhaps in conjunction with some of our existing facilities, to supply the Canadian market.

Do you think that would be a possibility? Is that the kind of thing that has already happened in the United States in the dissolution of the smaller breweries there?

Mr. Seagram: In the US context alone, very much so. The growth of Heileman and the growth of Stroh are examples. They were modest brewers just 10 years ago, ranking way down the scale, but grew through acquisition and rationalization of facilities. Stroh has a long Detroit history but has closed down its brewery there. It acquired Schlitz, "the beer that made Milwaukee famous," and closed down its brewery in Milwaukee. Pabst hardly exists any more; it was another major Milwaukee brewer but no longer exists there. Just one brewer remains, Miller.

You could extend that sort of thinking to include Canada. It is not outside the realm of anyone's imagination to think of an

American brewer with financial power and access to the total North American market coming in and acquiring one or more or all Canadian breweries and attempting through its financial might to rationalize and dominate.

Mr. Morin-Strom: So really rationalization might not only mean rationalization of facilities in Canada, it could mean the rationalization of the industry on a North American scale and, in fact, leave no new breweries efficient production facilities here in Canada.

Mr. Seagram: That is a prospect, but I would suggest a very long-term prospect. Efficiency, for example, is a relative issue. We do operate some pretty darned good breweries.

Again, we get to the packaging issue. Canadians have been world leaders in the packaging of returnable containers. No one has in the past, or up until recent years, run filling lines and filling speeds of returnable reusable containers as fast as Canadians with high-speed lines. So there are parts of our operations that are as progressive as any you would find, but we do not have the size to put it all together. That would take time to develop and capital.

Mr. Morin-Strom: Even under an integrated market, given that we have some good facilities here too, are there not some advantages to a brewer who is looking at selling both in Canada and the United States to having facilities in both areas? An American, I would think, would have an incentive to get a piece of the Canadian action, to utilize your capability or your expertise in handling refillable containers and to produce his beer in those facilities here and, likewise, produce the Canadian brands down in the US?

Mr. Seagram: That is possible. For example, a brewer who is remote from the northeast of the United States, the New England states, could easily develop a strategy that through acquisition of a Canadian brewer with Montreal-based facilities could do a better job of servicing the northeast, looking after the eastern part of Canada from Montreal, rather than going in and building a new capacity in the northeastern part of the United States. The prospects and the possibilities are wide open under the free trade scenario, but we are not in a position right now to handle it.

Mr. McGuigan: I have one short question. Do you use any sugar in the brewing of beer?

Mr. Seagram: Sugar per se, no. We use as part of our ingredients adjuncts which are corn-based, depending upon the brand. Corn syrup or corn grits is one of the brewing materials we use. It does not make much difference.

Mr. McGuigan: What I was getting at is Canada's sugar policy seems much different to that of the United States. We buy the cheapest sugar in the world. Why would you not use sugar instead of corn?

Mr. Seagram: Here is our sugar expert.

Mr. Harrington: I am not an expert on it, but as I understand it, you can be far more precise in the brewing technique with syrup than you can with sugar. We are into two per cent, three per cent, four per cent or five per cent beers now. To control the alcohol in there, it has to be very accurate.

Mr. McGuigan: You have a sort of corn-based--

Mr. Harrington: That is what I understand, yes.

Mr. McGuigan: What I was coming at was that some of the disadvantage you claim in the barley malt might be overcome by the fact that sugars in Canada are much cheaper than they are in the United States.

Mr. Seagram: Now you are affecting directly, if you like, the quality and the taste and flavour preferences of Canadian beer consumers. We still produce some beer here in Canada which is produced totally from barley malt without any supplementary adjuncts. It depends upon the product, the lightness and some of the licensed brewing formulae.

We have a very wide range of products available now to Canadian consumers. The Canadian consumers never enjoyed such a wide variety of beers in the history of Canada. You have operations such as Jim Brickman's on the small scale and specialty products, but you also have from the major breweries, unlike the picture that is painted by much of the media, a wide variety of products.

A Lowenbrau from Molson is a different product from a Labatt Classic, and they are both premium priced. A Miller product is quite different from an O'Keefe ale and a Molson Golden is a very much different type of product to a Labatt Blue. The consumer knows this because he expresses his wish in his repeat purchases, very much by his buying habits.

Mr. McGuigan: So the answer is there is no advantage on this side of the border as far as sugar is concerned vis-à-vis the United States?

Mr. Seagram: I do not believe so.

Mr. Chairman: Thank you very much, gentlemen. The volume of questions obviously reflects the interest the committee has in your industry. I think it is fair to say, and I do not think I am out of line in saying, that every member of the committee, regardless of party, has a real sensitivity to the concerns you have in the discussions that are ongoing and we appreciate your coming here.

Mr. Seagram: Thank you, Mr. Chairman, we have enjoyed it.

Mr. Chairman: Before the committee disperses, there are two items. First, I would remind you that we are meeting this afternoon at 1:30, not two o'clock; so we will have a very short lunch hour. Gary Posen, the Deputy Minister of Intergovernmental Affairs, and Peter Wallace from the Ministry of Industry, Trade

and Technology, will be giving us an in camera briefing prior to our going to the United States. Thereafter, the press will be invited back in. I think that is the wish of the committee when Mr. McGuigan gives his report.

Second, at the request of some members of the committee, the departure time on Monday for Washington was moved back to 3:50 p.m. Mr. Taylor has indicated that may be unsatisfactory in view of the fact that it results in arrival in Washington at the rush hour. I think he has expressed the preference for leaving at 1:25 p.m.

Miss Stephenson: That gets one into the rush hour in Washington.

Mr. Chairman: Does it?

Miss Stephenson: Washington is a little like Ottawa.

Mr. Chairman: It has an early rush hour?

Miss Stephenson: It starts about 2 p.m.

Mr. Chairman: It is the view of the committee then that 3:50 is preferable, is it? We will stay at 3:50 and inform Mr. Taylor of that.

The committee adjourned at 12:35 p.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, SEPTEMBER 16, 1985

Morning sitting



SELECT COMMITTEE ON ECONOMIC AFFAIRS

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Taylor, J. A. (Prince Edward-Lennox PC)

Substitutions:

Haggerty, R. (Erie L) for Mr. Cordiano  
Hennessy, M. (Fort William PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Association of Canadian Advertisers:  
Ameline, Y., Vice-Chairman, Board of Directors  
Foss, J., President

LEGISLATIVE ASSEMBLY OF ONTARIO

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, September 16, 1985

The committee met at 10:05 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Before we hear from our delegation this morning, I would like to put something on the record. I believe I speak for everybody who was in Washington when I say that we should be indicating our gratitude to the Canadian Embassy, Mr. Gotlieb, and counsellors Jim Wright and John St. Jacques, who were superb in organizing things for us and helping us find out as much as we could in the short time we had in that city.

We had to work pretty hard, in so far as hours were concerned, to talk with all the people who were lined up to talk to us and I think we all reached new vistas of understanding what is going on in that city, which is extremely complicated politically.

I would also like to extend our thanks to Jane Lindley from the congressional research service, who did a superb job in putting together the various staff people with whom we talked from both branches of Congress.

Obviously, while Hansard was not present in any of those meetings, a lot of ideas and concepts that we picked up there will see the light of day eventually in our report to the Legislature.

This morning we are very fortunate to have representatives from the Association of Canadian Advertisers Inc. speak to us. We have John Foss, the president, and Yves Ameline, the vice-chairman of the board of directors. Gentlemen, we have the morning and it is our usual practice to let our visitors make a presentation if they wish, with minimal or no interruption. We tend to be very persistent questioners thereafter, so if you have something you want to say initially, perhaps now is the time to start.

ASSOCIATION OF CANADIAN ADVERTISERS INC.

Mr. Foss: Thank you. I am John Foss, president of the association. Seeing that you have just returned from Washington, I hope you were not dealing with any dyed-in-the-wool Yankee fans while you were negotiating yesterday.

When we received your invitation to appear before you, I pointed out that we do not have a formal submission to make to you in relation to your mandate to look into the bilateral trade options between Canada and the United States. It was stated you may have some questions relating to the advertising communications field and we will be happy to respond to any such questions.

With me today I have Yves Ameline of Procter and Gamble Inc. Procter and Gamble is one of the largest Canadian advertisers; it is part of a large multinational corporation. Mr. Ameline is also vice-chairman of the board of directors of our association. Together, we may be able to provide you with information and opinions in areas of advertising communications from the advertiser point of view.

10:10 a.m.

Perhaps it may be of interest to you to get a nutshell picture of the Association of Canadian Advertisers. It was established in 1914 and we currently represent about 220 major Canadian corporations from coast to coast. Our members invest more than \$1 billion in advertising annually to help market more than \$100-billion worth of goods and services. Our members and national advertisers account for an estimated 85 per cent of the television advertising revenue and we represent decreasing percentages in all other media where, in particular, the retailer advertiser plays a larger part.

Before questions, allow me to touch on a few areas in which we think you might be interested, particularly since you have just returned from Washington, where Bill C-58 is of concern. That was a tax measure which made the use of US media a nondeductible business expense to Canadian corporations.

Advertisers opposed this tax measure when it was first introduced. It has since proven itself to be a valuable help for Canadian broadcasters and magazine publishers. Some television broadcasters would not have made it without the help of this tax measure, and the magazine industry also benefited considerably.

Bill C-58 was instrumental in giving Canadian consumers viewing and reading choices they would otherwise not have had and in enabling Canadian media to bring Canadian news and viewpoints to Canadians. At the same time, however, this tax measure had the effect of increasing the advertisers' costs, depriving the advertisers of certain audiences, such as those delivered by children's programming, and restricting the availabilities we had until that time.

Our main objection at the time of its introduction was the fact that the government used a tax measure to impose limitations on businesses in reaching their customers. To achieve support for the Canadian media, the advertisers had to pay higher prices to reach their audiences. In other words, it not only deprived US media of all income but also favoured the Canadian media, which would have been seen as a good and positive measure, but it also deprived Canadian advertisers of cost-efficiencies and regional availabilities, which was not so good.

Another area we have had a lot of questions and discussion about is what we call spillover. Advertising by a parent company in the United States, in publications or in the broadcast media with readership and audiences in Canada is, in our opinion, not depriving Canadian media of any significant revenue. Should there be no spillover, we think no Canadian budgets would increase at all.

In many cases, spillover from the United States may have a negative effect: a different label or package may be shown, recipes could be promoted in US measurements and thereby not work as well when Canadians make them, or different formulas of certain products will not be under the same brand, as is often the case.

Canadian viewers, more than readers, do not always recognize that they are watching US signals rather than Canadian signals and this can cause us a number of problems in contravention of Canadian regulations and also of our self-regulatory codes. This, in turn, causes public uproar and complaints in the so-called specialty pay channels authorized by the Canadian Radio-television and Telecommunications Commission. Five American channels can be shown, with US commercials, none of which carry the regulatory burden that the Canadian channels have to respect.

Another issue is the production of television commercials. This was a much greater concern in previous years; now we think it is a two-way street because US productions being made in studios here for exclusive use in the United States have become a reality. We must, as Canadian advertisers, have the opportunity of going outside Canada during certain times of the year when weather is a factor. A summer commercial is sometimes made during the winter and sometimes contains a particular destination or other requirements are demanded. We are committed, however, to making certain that the highest possible percentage of Canadian productions are made in Canada.

At this time, we probably have less access to making commercials in the United States than the US has to making them here; from the point of view of both the talent and the crews that are involved in that enterprise.

These are some of the comments touching on some of the subjects that may be of interest to you. We are now available to answer questions.

Mr. Chairman: This, of course, is what we have been defining as a service industry. Would you care to comment on the movement of labour back and forth, i.e., advertisers? It tends to be a profession in which, although it may be important to have knowledge of this country, people do move back and forth across the border. Is that correct?

Mr. Foss: To a very small degree. I will ask Mr. Ameline to add to this, but in my opinion very little movement of labour is involved in the advertising communications process. Advertising management people at the corporate level normally make their whole careers within the Canadian environment. Actually, there is more movement in other sectors of multinational corporations, in my opinion.

In the advertising agency end of it, where there are multinational agencies, they will hire Canadian talent here. There has been a movement of the top executive levels, generally more where the US corporations have required and take in Canadian talent. You have some Canadians who have made their careers by going into either international or US operations more than the

other way around, at least in the latter time frame.

In productions and in talent, the performers' unions prevent any substantial move in that sector, so there is not a great deal of mobility in the labour sector at all.

Mr. Ameline: I would confirm that, both at the advertising agency level and at the advertising corporation level, there does not seem to be a great deal of movement of advertising talent. What John said about trying to develop local talent applies to most major corporations, particularly multinationals. The era of developing talent in the United States and then implanting managers to run the local operations is truly a thing of the past. Most multinationals now try to grow local talent. That can involve some movement from one part of the world to another, for training purposes mostly.

In that respect, Canada is playing the role of training ground for international managers in quite a few corporations, because it enables a corporation to move a manager, a promising development person, from an international subsidiary into the North American context and give him exposure to the alleged sophistication of North American advertising, if you like, on a scale that allows him to be trained more quickly than if he had to deal with the complexities of the US market. So Canada acts quite a bit as a training ground for advertising managers throughout the world, but that is hardly a large movement of labour across borders.

Mr. McGuigan: How do these people get permits to work in Canada?

Mr. Ameline: I frankly do not know, but-I do not believe there is any difficulty.

10:20 a.m.

Miss Stephenson: It is much more difficult going the other way, but there is very little problem.

I am trying to think of one very senior advertising executive in the major multinational corporations in the past 10 years who has come from the United States to take over a branch plant. I can think of several who have gone from Canada to the United States, but I really cannot think of one who has come here from the US. We seem to be the source for a whole range of things rather than--

Interjection.

Miss Stephenson: Yes, they do, but they are not the very senior executives. For the last 10 years, since I have known anything about advertising, at any rate, the president of the Canadian branch has not been an American who has been transplanted here.

Mr. Taylor: For clarification, I am trying to get the message that you as an advertising organization are conveying

here. Do I hear you complaining that we have established a nontariff barrier in the nature of a tax regime that does not recognize legitimate expenses when they are incurred for payment of advertising in the United States, apart from Canada? Do I hear that as an objection?

Mr. Foss: It was an objection at the time of the introduction of Bill C-58. Everyone was talking about the benefits that could accrue by taking that measure, but there was no mention that somebody would also pay for it.

Mr. Taylor: So you objected at that time.

Mr. Foss: That was at the time.

Mr. Taylor: Now you do not?

Mr. Foss: We have seen the benefits to Canadian magazine publishers and television stations. Since it was introduced, one of the things we objected to was that they were cutting out availabilities that were required in all the major markets. They were giving some of the television stations in Toronto literally a monopoly for a while; they could set their own rates and there were double-digit increases on a regular basis after that.

In the meantime, Global has to a degree been built by this measure and has filled those availabilities, so the damage is not as big now as it was during the first years. There is no point in complaining about the years that have already gone by, so now we are recognizing in equal measure the benefit and the detriment of that bill.

The advertiser, however, ended up paying for it. It is not always recognized that it increased the cost of advertising behind the products and services that are offered in Canada. It made it a little less efficient because it deprived us of certain audiences that have never really come back in as an availability. But advertisers always manage to do it in the most efficient way, given whatever circumstances we have to work with.

Mr. Taylor: If government regulation restricts your efficiency and then you have to find ways around it to become efficient again, I hardly think that is a constructive move on the part of government.

Mr. Foss: It was not seen as such by us at the time. Over a long enough period of years it has contributed, however, as we mentioned in our opening remarks, to the establishment of the Canadian television stations. As an example, Global would not have come into full bloom in this market as quickly as it has without that measure.

Mr. Taylor: Subsidized by the advertisers, who again are being paid by the consumer.

Mr. Foss: That is right.

Mr. Taylor: You are taxing the consumer of the products

in order to promote greater Canadian television presence in the country. If that is the object of the exercise, I guess we are mixing economics with social planning.

Mr. Foss: Absolutely. That is exactly what has taken place. There is a social good that has been mixed in with the economics of the situation.

Mr. Ameline: Our concerns remain, but at least we have seen some good come out of it that we really did not expect at the time. When it was brought in, we thought there would be nothing but bad things about Bill C-58.

Mr. Taylor: There is no ill wind that does not blow some good.

Mr. Ameline: That is right.

Mr. Mackenzie: When Mr. Taylor interjected, he dealt with a question I had in mind right off the bat, and that was your comment that it has proved itself to be a valuable help for Canadian broadcasters and magazine publishers. Some television broadcasters would not have made it without this help, and the magazine industry has benefited considerably.

Apart from its being a national good issue, I take it, inasmuch as your opposition has been muted to some extent, if I read your brief correctly, that there is also a very definite benefit in a healthier Canadian broadcasting and magazine industry, which has the potential to spend a little more money on advertising.

I wonder whether there is any way you can make the tradeoff: what you think you would lose, which has not been nearly as bad, and the fact that we now have a much healthier Canadian entity in advertising, the media, the magazines.

Mr. Foss: By building up the Canadian media you are not increasing advertising efficiencies or anything like that.

Mr. Mackenzie: Without help, if some of these had gone under, they would not have been able to do any advertising; so there is obviously a tradeoff. I take it that this is the reason it is not as bad as you thought it would be.

Mr. Foss: With Bill C-58, effectively all the advertising on border stations was blocked off and all the US publications that had a substantial Canadian circulation were blocked off. They were very efficient from an advertising point of view. Their use had grown to the point where some of the Buffalo stations had a larger Canadian audience than any of the Canadian stations. That was efficiency to us. From a nationalistic point of view, it was not a very happy situation.

When it was blocked, we pointed out that they were penalizing one sector of the economy to favour another. At a given point if that is fully recognized, as we suggested it should have been, the mixture of the two elements of a social nationalistic good offset by--

Mr. Mackenzie: The thing that is very difficult to recognize is that this was an increasing presence, as everybody said. How much would we have survived without the measure of the bill?

The other thing I wonder about is that you mentioned we are a training ground here in advertising and there may be a tendency for somebody to be trained here and pulled back to the head office operation. If we opened things up even further, what would that say about our ability to keep even the advertising firms here, notwithstanding the argument that you like to have a local operation or presence? Some of the big operators could very well decide, as we have heard some of the plants could decide, "We do not need the Canadian option at all."

Mr. Foss: In this case we think almost the opposite is the case. It is being built here, and the Canadian talent that is being developed in this sector is in many cases so good that it is given higher responsibilities in the other international operations.

There is also mobility in that Canada represents only one tenth of the US scale, and it is a terrific opportunity to bring in a number of the talented people who are being developed overseas and give them experience here. Some of them remain in Canada; they are not taken back out. They remain here for years on that basis, while a Canadian may go into other levels of the organization.

Both the advertising agencies and the advertising production operations in Canada have become stronger and stronger, and a part of the reason is the fact that we have been plugged into all the best that is going on internationally. We have an easy flow of information between the US and Canadian firms, and as a result, we have been able to build that sector to the point where, in production terms, many of the US companies are now coming here to do their production because we have studios, talent and crews that are considered the best available.

Mr. Mackenzie: It may have as much to do with the dollar value as anything else at the moment.

Mr. Foss: It helps.

10:30 a.m.

Mr. Ameline: We do not see any real risk of Canadian branch offices being closed and repatriated to the United States. It has not worked any time it has been tried. About 10 or 15 years ago, Quaker Oats tried to do that; they closed the Canadian office and tried to run the Canadian operation out of Chicago. It was an unmitigated disaster for them, to the point where they quickly came back to Canada and reopened their local operation. That is probably the pattern that would exist if there were another chance to do that.

Mr. Mackenzie: The number we have lost and that have not repatriated were pretty heavy losses to this country too--Bendix in Windsor and many others.

Mr. Chairman: There are no real nontariff barriers right now to your doing that. I take it you are saying it is simply not wise to do that. Is that fair?

Mr. Foss: Since Quaker, there have been others. The member for Hamilton East (Mr. Mackenzie) will recognize that they have had a couple in his community. For example, International Harvester took back certain levels of its operation to Chicago. However, it was a corporation in deep trouble internationally; that is what demanded the shift. It had nothing to do with the belief that they could do better somewhere other than the Canadian operation. They simply had to cut back substantially.

Mr. Mackenzie: It is the rationalization that bothers me. We may very well lose the rest of the Harvester operation as well.

Mr. Chairman: We should clarify something for the committee, and I was a little confused. You are all representing advertisers, the bottom line, the people who pay the bills, not necessarily advertising agencies or intermediaries. Is that correct?

Mr. Ameline: That is right. In fact, not advertising agencies.

Mr. Chairman: In fact, not advertising agencies.

Mr. McFadden: You are on the other side of the coin, are you not? You are the people who use the agencies, and I presume the agencies have their own association to discuss their particular issues.

I want to raise two or three matters as far as the advertisers are concerned. When someone seeks to launch a product in Canada or market it to the Canadian audience, would you typically have new creative work done or would the more typical case be to just take the American creative and use it here? I know it varies from company to company, but I wonder if you could review a product launch or something of that nature.

What would be the typical situation? Obviously, if you are a Canadian company, you are going to advertise in Canada; but if you are an American company seeking to launch a product in Canada, what would be the typical approach that would be taken here?

Mr. Foss: Let me jump in first again. Yves Ameline may be able to give some specific examples from his corporate background, but in the aggregate within our membership if anyone were to try to make use of the US campaign, the US planning and the US creative in today's market, it would fail almost assuredly.

We have recommended against that for the past decade. There have been incidents where that has still been attempted. For a national launch into Canada, recognizing the two official languages, the American creative would fail so miserably that it was quickly proven to them. However, a lot of damage could have been done if they had attempted it.

In today's situation most of them would study this market and develop it for this market; they would make sure they had all the information about every little difference in attitude, culture and any other condition before they attempted a product launch into this market.

Mr. Ameline: It is almost a colour commentary. I think a launch is essentially no different from any other campaign, with perhaps one little element of difference: the stakes are very high. Obviously, the first six months to a year of a new product's life are absolutely crucial to its eventual success.

Most multinational corporations operating in Canada, in a sense, look at the United States as the best and cheapest market there is. Clearly, if a product has been successfully launched in the United States with a particular advertising campaign, you are not automatically going to start by throwing that campaign into the waste-basket. You are going to look at it very carefully to see what its strengths are, and how each strength has contributed to the end result.

Having said that, the decision still rests in the hands of the Canadian corporation and its agency. While the concept may be very close to what was done in the United States--and here what I am saying is obviously coloured by my experience with my own company--you would very seldom take a US commercial and air it in Canada. You would very often take a US concept, adapt it for Canada and produce it here, which from the standpoint of jobs and economic impact amounts to very much the same thing as if it were an original idea coming from Canada.

This is not just a US-Canada phenomenon; it is really international. The flow of advertising ideas goes every which way around the world. When a good idea is developed in Europe, it is looked at very carefully in North America for any merits it might have.

Mr. McFadden: When you are involved with the creative work here, I take it that virtually all the jobs related to that would be created here in this country. They might take a concept from the United States, a storyboard or something from down there, and simply do the production work here.

Mr. Ameline: That is right, and you still have copywriters at the agencies involved in the development of the final copy, etc.

Mr. McFadden: I take it the same thing would apply if a Canadian company wanted to launch in the United States. They would typically hire an agency there to do the production work in the United States.

Mr. Ameline: I would suspect so.

Mr. McFadden: I am curious to know whether you have a figure for the amount of employment in the advertising business your members here might create. Have you ever developed a figure on that? What would this be worth to the Canadian economy in terms

of gross revenue, say? You might have an easier idea of that. How many people do you think might be involved in some way in the advertising sector here?

Mr. Foss: We do not have any actual figures to give you on that. I know there have been attempts to assemble some picture of it, because we often appear before the Canadian Radio-television and Telecommunications Commission and if there are certain measures that have an impact in a negative fashion, we would like to show that they could be detrimental to the whole labour force involved in the process. It is substantial, because there are so many subservice sectors to this business.

The only figures we have, as I mentioned, are that our members place about \$1 billion worth of advertising annually--that is the aggregate of their budgets--into the operation, and our membership sells in aggregate about \$100 billion worth of goods and services. A certain amount of that is labour-intensive, and it gets into the advertising sector. Perhaps we can begin to try to extract some kind of impact it might have on the labour situation, but we do not have any numbers.

10:40 a.m.

Mr. McGuigan: My concern is about the free trade talks that are expected to come from Ottawa to go to Washington as a follow-up to the summit meeting of last March. What would be the position of the Association of Canadian Advertisers? Would you wish to retain the provisions of Bill C-58? Obviously on the United States side, when they sit down in negotiations, services are very much at the head of the list they have as a target in negotiating a free trade deal with Canada. Would you willingly give up Bill C-58? Obviously you would have done so when it first began, but now you are not so sure.

Mr. Foss: Again, we may now have a difference of opinion, because it is a subject we have not dealt with officially within our ranks. All I can do is to respond with my personal opinion on that subject. Given the opportunity, I would like to see it disappear.

I think that during this period the benefit we have referred to has happened, and from now on it will simply be competition on a level that will bring out the best in the situation. They now have survived; they will now come back in. I do not think they will disappear should it be opened up again. Maclean's magazine is not going to fold if Time is allowed in with a Canadian edition again; Global is not going to go away if the border stations come in and compete for the audiences they have.

We feel that competition of this nature brings out the best in products. It may sometimes bring out the worst in men, but it is good for the cause.

Mr. Ameline: I would agree. As business people, we would have no concerns. As individuals, as nationalists, depending on how strongly you feel about Canadian cultural identity, you might have a range of concerns. Obviously we want to maintain a certain

Canadian cultural identity and protect it. The need for protection is really a matter for speculation and estimate, and it will probably differ from individual to individual among our membership.

Mr. McGuigan: I take it your biggest concern would be in the cultural field as Canadians rather than as a business people.

Mr. Ameline: To state it simply, I would say it is the only field in which we see a potential concern.

Mr. Ferraro: We have had witnesses here who are proponents of it. Some of them are nervous about free trade; some are dead set against it. Specifically, the agricultural sector and the brewing industry have concerns, and understandably so.

In your organization do you find that some sectors are dead set against the idea? Has there been much discussion? Or is there basic unanimity?

Mr. Foss: You are talking about the overall trade and manufacturing industries involved?

Mr. Ferraro: Yes.

Mr. Foss: Our membership represents all of these corporations from the viewpoint of their communications and advertising effort. We are quite unusual in comparison to most trade associations in that we represent the function of business, whereas the Canadian Manufacturers' Association or the chamber of commerce represents it on a manufacturing basis, which we do not normally get involved in. It spills over, and we sometimes participate in those discussions as well.

Mr. Ferraro: That is what I was more interested in.

Mr. Foss: We do not formulate any of their policies or decision-making in that sector. When they tell us, "Open the border and we will be in trouble, because we know there is a plant with unused capacity right across the border," we say, "Obviously this is something that is very detrimental to your particular business." We can share that concern with them, but it is not something on which we either take a position or in which we play a decisive role among our membership.

Mr. Ameline: I think I should clarify that my earlier comment applied to the issue of the removal of Bill C-58, not the whole free trade issue because, as you point out, the brewers, who are an important constituency for us, are very concerned with free trade.

Mr. Mackenzie: On what do you base your belief that we are now--without the help and protection of something like Bill C-58--strong enough to survive, given the size and potential of the United States? We obviously needed C-58; at least most people definitely believed that at the time it came in, and it has worked. Now you say we are strong enough.

My concern is that it sounds like some of the free traders

are asking us to have faith without being able to tell us what the upside is. A lot of people before this committee have been able to tell us the downside. Given the potential, the size and power of the United States, what makes you think we would not see a return to hard times with the removal of such a bill?

I understand you saying you think we are now strong enough. Why? Without this bill, the same pressures would be there that got us into trouble in the first place.

Mr. Foss: It is a personal assessment or belief that enough time has transpired. From my days within the corporations, I know that if I could get a year protection for the introduction of a new product, a new business, I can make it. I would not want protection any longer. Then I would want to participate in the competitive environment that existed. The time has now come for those publications, those broadcasting stations, that did get that lease on life by being given this protection for this period of time.

If they cannot survive, having had that kind of protection, that kind of start into the area of business they operate in, then they are inefficient. Perhaps they should not be part of the community of services if they cannot survive competition with others.

Mr. Mackenzie: I know I am stretching the comparison a bit but we have some Americans who have argued very strongly in the same way about our fishermen. They say they cannot survive on their own because the Unemployment Insurance Commission keeps ours going the eight or nine months of the year they cannot fish. They say that is an unfair subsidy.

Mr. Foss: As part of the whole free trade question you are dealing with, a number of sectors may have to be designated. This was the case in the common market in Europe. The agricultural business of France for a long time was given protection beyond any of the principles they had agreed to about easing off and all the rest. This happened over a period of time. It is beginning to be liberalized more today than it was 10 years ago in that sector.

We may have to do this on a very gradual basis with the agricultural, fishery and forestry sectors here, to give them the same opportunity that communications and these other elements have had up to now. But if we are going to succeed in a global market place, we have to be competitive with outside competition at a given point.

Mr. Chairman: One of the major issues, if we get down to brass tacks, is obviously going to be the issue of publications and cross-border television signals. Those are both matters that were raised to us and the United States. They are also matters that would perhaps fall into the category of the cultural sector. Therefore, many people here--even the most concerned advocates for freer trade--have said they have to be protected. I gather from your submission there is really no argument as far as advertisers are concerned for strong continued protection in either of those areas. They say there is no need for it.

10:50 a.m.

Mr. Foss: There is no strong uniform argument for protection in those areas because the advertisers know that if they are looking for efficiency, ensuring the greatest efficiency in bringing goods and services to the Canadian consumer, it should be available to them, whereas, as Yves Ameline was pointing out, there are differences of opinion when you slip to the social side of it because you have to weigh nationalistic concerns for certain sectors of our business and they should become a little more conservative.

Miss Stephenson: Perhaps beer is a cultural concern in Canada.

Mr. Foss: Did the Mackenzie brothers not prove that?

Miss Stephenson: The Mackenzie brothers notwithstanding. You did not have anything to do with that, did you?

Interjection.

Mr. Chairman: Thank you very much. Your presentation has been clear and precise. I think you have clarified some areas that we were interested in finding out about and we appreciate very much your preparation and your appearance here today.

Mr. Foss: It was our pleasure. Good luck with your work.

Mr. Chairman: Thank you.

I should indicate for the record that in my opening remarks this morning I neglected to indicate what should be accolades from everyone on the committee for the good work Mr. Arnott did in smoothing our trip to and from Washington. There is no doubt it made things a lot easier. He was so concerned about so many little things we tend not to think about until the last minute and he did a superb job.

Mr. Taylor: We have come to expect that high level of performance.

Mr. Chairman: We do. That is why we--

Mr. Hennessy: That is right. He will be the next Canadian ambassador.

Mr. Chairman: That is why we sometimes take it for granted.

Interjection.

Mr. McGuigan: Next time warn us about the salt and sugar at the ambassador's table.

Mr. Chairman: That is right.

Mr. Mackenzie: At the risk of having a problem with the chairman and the clerk, may I also suggest that next time we are away in a lovely city like Washington for as much as five days, that at least one afternoon be kept aside so that you could do a little cultural visiting? Eight in the morning till five and six at night every day is a little much.

Mr. Chairman: That is a point well taken, although we did have a lot. You will have to admit, Mr. Mackenzie, it is not a simple matter to comprehend what is going on in that city.

Mr. Mackenzie: That is my problem. Some of us you can only observe so much.

Mr. Chairman: I guess if we have other things to do, and having been away most of us probably do, we have an extra hour right now. We will see you at two o'clock. Perhaps we should go off the record.

The committee recessed at 10:54 a.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, SEPTEMBER 16, 1985

Afternoon sitting



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Traficante, F., Research Officer, Legislative Research Service

Witness:

Thompson, I., Master of Business Administration Student, Centre for  
Canadian-American Studies, University of Windsor

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, September 17, 1985

The committee met at 2:07 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: As we could get started, there are a couple of things I would like to say.

You have just been handed a document called US-Israel Free Trade Area Agreement Implementing Legislation. Mr. Arnott was given this by Mr. St. Jacques of the Canadian Embassy before we left, and he received it from the United States administration. It may help to clarify some of the things we heard at noon on Friday.

Also, Mr. Traficante has received approximately five inches of material from the Economic Council of Canada in response to a request we made when we were up there. There are no copies of it but he has it available; we do not intend to copy it. He will give us summaries tomorrow morning. However, we appreciate it and no doubt there is some good material in it.

Mr. Chairman: This afternoon, we are going to hear from Ian Thompson, who is an MBA student at the University of Windsor and is involved in the Centre for Canadian-American Studies at the University of Windsor. This has to do with a submission which we asked for and received some time ago, and I think it is exhibit 38. You should have that exhibit; you received it some time ago. We have asked the centre to follow up on that.

Mr. Thompson is doing his thesis on this issue and perhaps it has some special relevance because we have not made plans to travel to that part of the province; that is, Windsor. While he is not going to be talking about the significance of that part of the province, it is significant to the University of Windsor because of its close proximity to Michigan.

IAN THOMPSON

Mr. Thompson: Thank you very much for the opportunity to come here today. During the past 30 years, the Centre for Canadian-American Studies at the University of Windsor has conducted annual seminars on key Canadian-American issues. In November 1984, the focus of the seminar was on prospects for future trade relations between North American countries.

A brief highlighting some views presented at the conference has been submitted both to the federal joint committee on Canada's international relations and the Ontario select committee on economic affairs.

I would like to take this opportunity to expand on some of

the views raised in the brief that pertain specifically to the issue of unrestricted bilateral trade with the United States, as well as express some other views from other sources that have come to my attention as a result of my own research on this very current and extremely complicated matter.

Canada's search for an optimum relationship with the United States will always be an exercise in trying to obtain the greatest possible economic advantages with the least possible sacrifice of political independence. Historically, the allure of economic integration in the United States has increased whenever Canadians feel economically vulnerable and lack confidence in their ability to prosper on their own.

The personal philosophies of the incumbent Canadian Prime Minister and the American President also have significant influence on the direction and pace at which the talks proceed.

Positions taken on this issue vary widely depending on the special-interest group being represented, ranging from maintenance of the status quo to unrestricted free trade between the world's two largest trading partners.

The international and domestic challenges facing the Canadian economy negate the viability of the status quo option. Hundreds of thousands of Canadians are unemployed for other than seasonal or transitional reasons. Our traditional strength in world resource markets has been badly eroded by rising costs as we have to move to more remote, lower grades of nonrenewable supplies.

Significant amounts of renewable resources, i.e., forest and farm land, are being exhausted through poor management practices. Alternative sources of supplies for currently weak global demand are being developed in other countries, often through government enterprises that discount domestic costs to earn vital foreign currency and preserve employment.

In the manufacturing sector, many Canadian firms are experiencing mounting pressures from international competition. Their plants frequently suffer from the inefficiencies that result from inadequate scale and lack of specialization. Compounding the problem is a Canadian dollar that is overvalued relative to most nations other than the US. Moreover, protectionism in foreign markets is on the increase.

Not only are Canadian tariffs, which had formerly restricted competitive imports into the Canadian market, coming down, other countries are now raising nontariff barriers that tend to restrict Canadian producers' access to their markets. No country depends more on expanding trade than Canada. Thirty cents out of every dollar of the country's gross national product comes from exports. Canadians clearly have a lot at stake.

The Canadian tariff scale, like those of most other countries, is escalated; that is, it is very low or zero on resources but it rises as goods become more highly processed. Thus it provides its heaviest protection to manufactured goods.

If only this tariff were removed, Canadian manufacturing would likely contract. However, the issue is removal of both US and Canadian tariffs. Thus we would be getting rid of US tariffs that are also escalated and that would consequently deter Canadian exports and production of highly processed goods. These goods have to pay a higher tariff at the US border. We therefore tend to concentrate on exporting duty-free resources.

In short, the Canadian tariff encourages us to concentrate on highly processed goods while the US tariff pushes us in the other direction, towards a concentration on resources.

A soaring US dollar has pushed American-made goods out of reach of many foreign customers and turned the long history of trade surpluses into a staggering trade deficit projected to reach \$150 billion this year.

The threats on the economic side, which Canada simply must not ignore, include the continuation and probably the intensification of existing US nontariff barriers and new US protectionism, particularly under the label of fair trade.

Free trade advocates claim the only way for Canada to avoid these trade barriers is to negotiate a bilateral free trade pact with the US. The principal benefits of removing the US barriers to Canadian goods would be the economic advantages of producing for a "domestic" market of 250 million people. Canada is the only major industrial nation without free access to a market of 100 million consumers. This market access would generate substantial efficiency gains in the production of goods exhibiting significant economies of scale and-or economies of specialization.

This resulting increased specialization in Canada in selected export lines where there are economies of scale would reduce manufacturing costs. These cost reductions and increases in productivity would eventually allow Canadian producers to increase their wages or reduce their prices, or both. In fact, inexpensive imports would force them to reduce their prices. Thus, because of a combination of lower prices and increased wages, Canadian real income would rise.

It should be stressed that such predictions assume that an open border would prompt Canadian manufacturers to specialize for the US market and thereby spread their costs over longer production runs.

Estimates of these and other Canadian income gains that would result from removing Canadian-American trade barriers ranged from five to 10 per cent of Canadian gross national product. That is obviously quite large. The C. D. Howe Institute predicts up to a seven per cent increase in living standards resulting from lower consumer costs through increased competition from US products and from larger production runs in Canadian plants able to serve an expanded market.

It also predicts a wider variety of consumer goods and a reduced flow of investment to the United States by Canadian companies that move there simply to avoid US tariffs. It also

foresaw an end to the branch plant nature of the Canadian economy caused by American-owned companies establishing Canadian subsidiaries to escape tariffs.

Studies by professors Richard Harris and David Cox published by the Ontario Economic Council, Ron Wonnacott of the University of Western Ontario, and the Business Council on National Issues, among others, report similarly impressive findings.

On the other side, the effects of removing Canadian barriers against US goods also offer potential benefits to Canada. Canadians would increase their consumption of bargain-priced goods, both imports and import-competing goods and, to some degree, imports would displace higher-cost Canadian production. In other words, we would be giving up products in which we have a comparative disadvantage in order to acquire them less expensively by importing them instead.

There would also be economic costs inherent in any free trade agreement with the United States, although many of them would likely be of a one-time or transitional nature; one-time meaning things like plant retooling, transitional meaning things like job transfer. Once the border is open, at least some US subsidiaries which originally established here because of the tariff may be tempted to relocate and supply Canada from the United States.

Moreover, as industry in the United States tends to shift from the northeast and midwest to the sunbelt, some Canadian subcontractors will not have the advantages of location near formerly northern industries and lower wage rates they once could claim. They may have to follow their markets southward. Thus, there can be no guarantee that enough jobs would be available in localities Canadians wish to live at the wages they think they should receive.

In some areas, high levels of unemployment may result. However, this to some degree has been occurring for several decades due to technology changes. It should be recognized this is largely an adjustment issue that Canada is going to have to come to terms with, irrespective of its future relations with the United States. The fundamental question is really whether the magnitude of these adjustment costs and their allocation could be less disruptive and more equitably shared through a comprehensive trade agreement negotiated with the United States.

A major concern that is often expressed by those opposed to freer trade with the United States is that a bilateral agreement might prove to be only the prelude to a loss of sovereignty. It would probably be unrealistic to claim there would be no loss of Canadian political independence since there is inevitably some tradeoff between greater economic integration and less sovereign flexibility. This is especially the case for Canada in any strictly bilateral accord with the much more powerful United States.

As Carl Beigie stressed in his policy paper, The Future of Canada-US Trade, it is important to make the distinction between

Canadian policy independence in theory and in practice. The vast network of US trade barriers seriously constrains Canada's policy options today in a host of areas.

Accordingly, many of the limits imposed by a Canada-US agreement would occur in areas where Canada's actual policy scope is already greatly circumscribed. Moreover, an efficient Canadian economy would provide additional resources for the exercise of effective sovereignty in areas where some true independence remained. Skilful negotiation should help to minimize sacrifices of sovereignty in areas that are regarded as having priority by Canadians, e.g., cultural affairs.

Also, critics say that in a future bilateral dispute the United States could exercise a mass influence on Canadian policy by simply threatening to cancel a free trade agreement on which Canada had become economically dependent.

An extensive study by the Business Council on National Issues concludes that this possibility is highly unlikely. Out of hundreds of treaties signed by the United States since the Second World War, only 10 have been cancelled, and of those, eight were with communist bloc nations.

Realistically, Washington can already put pressure on Canada any time by blocking imports. The key question to ask ourselves is, how much economic and policy independence does Canada really enjoy now? We already depend on the United States for three quarters of our exports. Almost 2.5 million Canadians depend upon those exports for their jobs. American policies and economic conditions already have a profound impact on our policies and standard of living. The sovereignty argument might be more compelling than it is if we were not already so dependent on the US market.

2:20 p.m.

Yes, there are definitely a number of risks in any bilateral agreement with the United States, but there will be risks with any option that Canada might pursue. Take, for example, the risk of large-scale unemployment from massive closings of US subsidiaries in Canada. That risk exists anyway in a number of industries because of already-agreed-to General Agreement on Tariffs and Trade tariff cuts and the competitive advantages of shipping certain types of production to the lower-wage-cost areas of the globe.

The economic philosophy of some hardcore free marketers, that any industry that cannot adapt and survive without the protection of tariffs should be allowed to collapse, is not as widely held a view as some would have you believe. Most supporters of free trade acknowledge that extensive support of the inevitable losers in any Canadian-US bilateral agreement would be a critical part of an accord.

The problems of adjustment can be resolved by transitional income support programs, job retraining and mobility measures. By negotiating an appropriate transition period, introducing sunset

legislation with specific guidelines and within a specified time horizon for phasing in any agreement with the United States, the aforementioned risks could be reduced.

An understanding that Canada would retain a flexible currency relationship with the US dollar would further assist the adjustment process. In any case, problems of adjustment can be dealt with more readily in a growth situation marked by expanding markets than they could be under an inward-oriented set of government policies.

There are many developments that could result in a failure to negotiate successfully some form of comprehensive trade agreement with the United States. Canadian public opinion may require Ottawa to seek production safeguards, together with economic and-or political protective measures that the United States would be unwilling to accept. Washington might demand terms that Canada could not tolerate consistent with its sovereign status. Indeed, the possibilities for our inability to come to mutually acceptable terms are numerous.

If, however, the potential economic benefits for Canada are as significant as they appear to be, it makes little sense to refuse to enter negotiations simply from fear of what might prevent their successful completion. Even if the arguments for a comprehensive negotiation should be accepted, it does not follow that the end result need be all-encompassing and extreme to the extent of a complete elimination of all impediments to commerce between Canada and the United States.

As Carl Beigie stated at the 1985 national economic conference: "All that basically would be required for a mutually advantageous understanding is a broad-based pact covering a number of functional areas, i.e. significant nontariff distortions, a recognition of the importance of adequate transitional arrangements and a balance of particular interest to both sides. Reciprocal opting-out provisions for particularly sensitive sectors could be negotiated, as could an effective judicial mechanism to arbitrate future trade disputes. Basically, without recourse to an effective arbitration mechanism that exhibits power, the nontariff barriers will continue."

In conclusion, let me state that I did not come here today pretending to have all the answers. In fact, quite often I wonder if I have even a few of them. I am not sure if any of us really does, but as we rapidly move towards a more integrated global economy, the list of alternatives that are realistically feasible diminishes. If Canada's economic malaise is to be reversed, some difficult decisions will have to be made by all Canadians and especially by you gentlemen. I am well aware of the unenviable dilemma which confronts the respected members of this committee.

I would like to reiterate the same point I tried to make in a brief presented to the federal joint committee. The problem I refer to is the potential loss of jobs within specific industries that could result as a consequence of increased competition from more efficient foreign firms entering a marketplace not governed by restrictive practices.

A member of the provincial or federal Parliament who represents a riding where this threat is a very real possibility can hardly be expected to espouse the benefits of free trade when his re-elections depend upon protecting the jobs of the people who elected him in the first place. Nothing alarms a politician more than rising unemployment in his or her riding, and justifiably so. However, protectionist measures and government bailouts and subsidies are not the answer. These so-called solutions serve only to reward inefficient operations. The loss of jobs in certain sectors of our economy should be more than offset by economic growth in other key sectors.

In this age of global markets and the widespread disruption of industry in North America, our problems will not be solved by the narrow focus that is prevalent among many special-interest groups and provincial, regional and political viewpoints, but rather by a desire to choose a course of action that is best for all Canadians. Canada was founded on compromises and held together by major compromises. Several additional compromises are needed now if our present standard of living is to be maintained and perhaps improved in the future.

Mr. Chairman: Thank you.

Mr. Thompson: I would also like to apologize to the ladies present because, if you read my submission, I referred only to gentlemen. As I looked over the brief submitted to me, there was no mention of anyone on the committee; so it was not an intentional oversight.

Miss Stephenson: You do not need to apologize; it occurs constantly. Having been one of the boys for 10 years, it does not make any difference to me.

Mr. McFadden: I wonder if I could explore for a couple of minutes the sectors in which your research, or the research with which your group is associated, indicates the extent of further job opportunities and those that might expect a contraction.

One of the problems we have had in discussing this has been that the witnesses have appeared to be quite general in their comments, with their macroeconomic models and so on. This would appear to indicate that there should be an increase in economic activity if we were to develop a free trade arrangement with the United States.

What we have been trying to get a handle on is--

Mr. Thompson: Who would be the winners and the losers.

Mr. McFadden: Who might be the winners and losers.

I know that is hard to work out now. Various studies have been done by the federal and provincial governments to try to determine that. I am curious about what you and another group you are with have done with respect to this kind of firm input.

Mr. Thompson: In all honesty, our group is probably as guilty as the rest, because basically we are looking at the global picture. However, we have come across the potential losers. Being very specific, they would be furniture makers, beer companies and possibly the auto companies if there were a revision of the auto pact.

Mr. Haggerty: Textiles?

Mr. Thompson: Yes.

Miss Stephenson: They were already gone, anyway.

Mr. Thompson: I noticed the other day that Ed Broadbent, I believe, was speaking on the necessity of keeping the auto pact intact. Some people do not realize it was signed with safeguards built in for Canadian auto producers, and they were supposed to be phased out over a very short time horizon, specifically five to seven years, once Canadian auto firms could stand on their own feet.

Being from Windsor, we have looked into this area much more closely, and we do not feel the Canadian firms could compete at this point. It is not so much the American producers we are worried about; it is more South Korea and Japan establishing plants in the United States and therefore competing with Canadian companies on an equal footing.

Those safeguards are still in place, however, and that is why the auto pact has been very beneficial to Canada.

Mr. McFadden: Are you proposing that what we might do, and you mentioned this during your brief, would be to exclude certain vulnerable sectors in the same way as the Americans might want to do that? Do you feel that is how we would get around perhaps the biggest adjustment problem?

Mr. Thompson: If you are referring to, say, sectoral free trade, no.

Mr. McFadden: No. I was referring to that fact I thought you were advocating a free trade agreement.

Mr. Thompson: Right.

Mr. McFadden: Maybe I heard you wrong, but I thought you said you recommended that perhaps some sensitive areas should be excluded from the overall agreement.

Mr. Thompson: That was the intent of one of the points I made. More specifically, I was hoping for something like sunset legislation, allowing certain firms five to 10 years, say, to become more cost-efficient. If they cannot compete, be it Canadian or US firms or industries, given a certain time horizon in which they are still protected by the government to allow them to become more competitive with corresponding industries in the other country--

Mr. McFadden: In summary, you are proposing a real free trade area that would encompass everything going back and forth between the United States and Canada with an appropriate sunset period, as you call it, or what other witnesses referred to as an adjustment period.

Mr. Thompson: That is correct for the most part. There are certain cultural sectors--for example, the Canadian Broadcasting Corp. and things of that nature--that should be excluded from any trade agreement.

Eventually, we would like to see a comprehensive free trade agreement with the United States, but we are afraid there might not even be negotiations. It is more or less a question of how much time we have. The idea of just negotiating a pact with the United States should not be as much cause for alarm as it appears to be. There is nothing in writing saying, "When one negotiates, things are final."

2:30 p.m.

Mr. Taylor: Where is the alarm?

Mr. Thompson: I was not referring to the committee members--

Mr. Taylor: No. What I meant was, you have a perception of alarm in terms of the concept of freer trade; how do you arrive at that?

Mr. Thompson: In Windsor, being a highly unionized city with a very New-Democratic-Party-oriented newspaper, a lot of the business headlines--

Mr. Mackenzie: Even the Liberals lucked out on that one.

Mr. Thompson: That is not meant as a slight in any way. I have yet to read a column that has mentioned any possible benefits of free trade. A lot of them say: "We will be swallowed up by the United States. We will become the 51st state. We will do this. We will do that."

Certain industry sectors claim the same thing, that moving into a free trade agreement would be disastrous for them, and it might well be.

Mr. Mackenzie: Your perception of alarm is from the Windsor area and the media in that locale?

Mr. Thompson: Yes; it is more a regional distortion. This has been the focus of our studies in that area. A lot of the speakers and a lot of material have been from Windsor and Detroit. When we bring in people from Ottawa, Toronto or Washington, which we were able to do last November, we find we are given a different perspective on the whole issue.

Mr. Taylor: I want to follow up on my colleague's question. You seem to have a global picture. You are looking at

international competitiveness and the need for Canada to be competitive, first in the North American context, where we meet international competition even in the US market as well as in our own market.

Do you see any validity to the concept of a deindustrialization of America in the sense that as we become more global and the tariffs and nontariff barriers are reduced to form a freer global community, there is no way North America can compete with the newly industrialized nations? Can you answer that without getting into a dissertation on Toffler, Nesbitt, Reich and these people?

Mr. Thompson: One of the major disadvantages we have in North America is the wage rate differential. When you have a lot of US-based firms deciding to move some of their plants and operations to the Far East because they cannot negotiate with the unions, it causes you to wonder where the growth is going to be. In the past 10 years we have lost a lot of our competitive advantage to the Far Eastern countries, the newly developed countries.

At the same time--you were talking of a global sphere--there are certain countries that require foreign currency. I refer specifically to the United States. If the United States decides to go more towards protection and cuts off imports from those countries, they are not going to have the foreign currency they require. Also, the debts they are faced with are only going to mount; how are they going to repay them?

They are in a far worse crisis than we are faced with. They are going to be lobbied from all sides; for example, by the steel industry about dumping from European countries and the South Koreans exporting more cheaply.

Mr. Taylor: With your vision of the ever-diminishing globe, can you see any validity--I am back to my question--to the deindustrialization concept in the sense of mass-produced, standardized products?

Mr. Thompson: I would think so. Maybe I am not understanding your question correctly. Are you asking me whether we are coming to a point in time where we are going to have certain operations set up globally?

Mr. Taylor: No. I am asking you whether, when we achieve freer trade with the United States, we embrace them and their inability to compete with the rest of the world. In other words, I want to know whether this is a stopgap with respect to markets for us until we run right up against international competitiveness in a larger, North American context.

Mr. Thompson: Okay. I think I understand you more clearly now; at least I hope I do. In the original brief that was submitted--I believe your committee has received it; I know the federal committee has--we were not advocating the US market as the be-all and end-all type of thing, but one of the headings we used referred to broad issues that must also be considered in bilateral trade.

One of the issues was the fact that policies should be considered to encourage expansion of trade with Pacific Rim countries. I do not mean to focus on the United States, but we have to be realistic. We are basically very dependent on the United States, but that is not to say we cannot expand our trade opportunities with the Far East.

One of the major complaints they have had in the Far East is that Canadian business has been too conservative. This year we were fortunate enough to have several students from mainland China in our conference, an opportunity we have never had before, and three of them have worked for industry and trade for 10 years. They were saying that whenever they had to deal with Canadian businessmen, they found them ultraconservative and not willing to take a few risks and gambles in markets such as China, Indonesia, and Malaysia.

I am definitely not advocating that we throw everything towards the United States and that will solve our problems, but that other markets should be explored.

Miss Stephenson: I think James's suggestion is that you would have heard the theory put forward that we were considering a closer relationship with the United States. That means simply becoming a partner in what is euphemistically called the "deindustrialization of North America," or the shift of the manufacturing industry to any other part of the world, particularly the newly emerging countries, where there can be manufacturing at a relatively cheaper and therefore more competitive rate. North America is going to be reduced to extremely high and extremely low technology and nothing in between..

Mr. Thompson: The manufacturing will take place in all the--

Miss Stephenson: Elsewhere.

Mr. Taylor: But you are now seeing an evolution towards more service industries, or is that just a theory? There is also some common wisdom that says the economic centre of gravity of the world is shifting from New York to Tokyo. Two hundred years ago it was London, England; 100 years ago it shifted to New York; and now it is shifting to Tokyo. The emphasis is on Southeast Asia and that part of the world. Certain Americans are in that.

I was wondering whether you had any broader vision with regard to our role on the planet in economic terms, whether our embracing the United States in a free trade posture is simply seeking solace and comfort on the way to a more difficult role--

Miss Stephenson: Economic oblivion is what you were going to say.

Mr. Taylor: No. The role of competing with the larger part of the world and the population in Southeast Asia.

Mr. Thompson: I am not sure.

Mr. Taylor: Maybe that is economic philosophy, is it?

Mr. Thompson: No. I would say you are probably better versed on that than I am. You can see it happening today. As to how long it will continue, or to what degree, I am not sure any of us can answer. I do not know. I have my own personal views on why some of it is happening.

Mr. Taylor: Do not tell anyone; they will think you are crazy.

Mr. Thompson: I would rather keep them to myself at this point.

Mr. Chairman: Mr. Haggerty has a question.

2:40 p.m.

Mr. Haggerty: I would like follow up on the thoughts expressed in Jim's comments. In 1969, there was a report by the Commission on International Development, chaired by Lester Pearson, called Partners in Development. It was submitted to Robert McNamara, the president of the International Bank for Reconstruction and Development. The key point in that report was that a buck is a buck, here, in the United States and in other places throughout the world; the labour rate would have to remain about equal to be competitive and to get into the area of world free trade. I do not think anybody is afraid to use the words "free trade" as long as it is fair trade.

A few years ago, when the United States had difficulties with China, for example, they immediately sent out warning signals to their multinational corporations here in Canada, such as Westinghouse and General Electric. Right at home, one of the flour mills, either Robin Hood or Maple Leaf--I think it was Robin Hood; anyway, it was an American plant--was told it could not have any more trade with China. If we get into bilateral or free trade with the United States without some tradeoff, I can see us being shortchanged.

You said one of your concerns was the unemployment risk involved. I think the key to this thing is job creation in the United States, in Canada and in other places. If there is a risk of losing jobs, we should take a hard look at the direction we are talking about going in the area of free trade. The United States wants the same kind of free trade agreement it has with Israel--no tariffs--but you are dealing with a small country there. What does Israel have? There are no minerals, no timber, no paper--

Miss Stephenson: No oil.

Mr. Haggerty: No oil. No tariffs means, I suppose, that you could travel over there for a vacation and that sort of thing. But to use an example--and Mr. Mackenzie will bear this one out; we sat on the committee dealing with Inco layoffs--one of the problems of the United States is that it has no precious metals such as cobalt, which is used for armaments, special steels and so on. They were talking about going offshore to get it, mining it

down in the Caribbean. I can see moving in areas such as this. If it is for the benefit of the United States, they are going to get it.

To go back to the Inco layoffs, Inco and Falconbridge are still in financial difficulties, and one of the reasons is that if they sold their nickel at the price it cost to produce it here in Canada, at Canadian labour rates, we could be world competitive; but no, it is sold at the price of the American dollar. In other words, you are adding about 85 cents to 90 cents on a pound of nickel. The eastern European countries can put it on the market cheaper than that. That is the problem the United States faces today; its exports are almost nil compared to imports because of the value of the American dollar.

If you go back to the report of Lester Pearson, it said dollar values would have to remain stable from one country to another. In other words, the labour rate was going to be the same throughout the world. That is going back to the old Corn Laws, is it not?

Miss Stephenson: That is a long time ago.

Mr. Haggerty: The same thing will happen today if the American dollar remains as high as it is, and it is going to remain that high for quite a while. If we went into a trade agreement with the United States today, almost everything would be at the price of the American dollar. Why? Because almost every industry in Canada now is multinational and controlled by Americans. You still have Westinghouse, Inco--

Miss Stephenson: Not "almost every industry"?

Mr. Haggerty: Just think. The paper mills--

Miss Stephenson: Not the majority.

Mr. Haggerty: The biggest majority of the paper mills are. MacMillan Bloedel--

Miss Stephenson: We have the accurate figures from the Ministry of Industry, Trade and Technology.

Mr. Chairman: Just slightly over half.

Mr. Haggerty: The only one that is not in Canada is ITT, I guess, although it may be around. All I am saying is that the majority are controlled by multinational corporations. We do not control our economy in a sense.

Mr. Thompson: I agree with you. I also think part of the problem with the high American dollar is the American deficit. If it remains exorbitantly high, I do not think you are going to see a substantial drop in the American dollar.

Mr. Haggerty: Is it the American deficit or is it because of the banking institutions? The United States has lent money to the Third World countries and--it happened here in Canada

with banks--that money is gone. It is lost to them. There are billions of dollars there. One way to get it back is to keep the interest rates high. Eventually they are going to give it back to the ones who can afford to pay for that loss.

The banks are not going to lose. An example that can bear that out was when the Chase Manhattan bank, when Jimmy Carter was the US President, froze all of that oil money that was brought over from Iran. That is how the whole thing started with that deal. The money could not be funneled through the system.

Mr. Thompson: When you say the banks are not going to lose, I might question that. I think some of them will lose.

Mr. Haggerty: Some have lost already.

Mr. Thompson: Yes. When you get countries like Argentina and some of the other Latin American countries that are faced with exorbitant debts, they keep rolling the debt over and over. In fact some of them, such as Peru, are now refusing to pay anything more than 10 per cent of their foreign earnings each year. One of the banks did not get back this money. They were stuck between a rock and a hard place. Either they write it off completely with--

Mr. Haggerty: Which is what will happen.

Mr. Thompson: Which will happen eventually with some of it for sure, or they keep agreeing to allow the countries to roll over the debt through so-called constraints that the International Monetary Fund imposes. However, these constraints further hamper these countries from earning the foreign currency they need to pay off the debt.

Mr. Haggerty: That is what is taking place here. The banks have kept the interest rates up to cover much of that loss and that is another area where we cannot be competitive with other countries throughout the world. It is a vicious circle, is it not?

Mr. Thompson: Yes.

Mr. Haggerty: It goes back to the statement in that book that to have a global partnership and free trade among nations, the same labour rate has to prevail from one country to another. This is one of the reasons you see Japan coming back in now. It is more economical for them to come and invest their dollars here in Canada and the United States, particularly in the automobile industry, and that is what they are going to do. They cannot bring the automobiles in because of quotas so they will invest over here and still make the money on it because they are still going to sell the cars. This is what is happening.

Mr. Thompson: Right. In answer or in response to another point you made about free trade between Canada and the United States, I think you might have been referring to the dollar and the size differential. The fact is they do control, as you said, the majority of our industry.

You can also look at Australia and New Zealand. There is a

very similar situation there and yet the studies have indicated New Zealand, since it has entered a free trade agreement, has benefited 10 times more than Australia. Australia's gross national product went up four per cent in five years. New Zealand has gone up over 20 per cent. They were in basically the same type of predicament.

Mr. Haggerty: What are they dealing with mostly in the free trade agreement?

Mr. Thompson: They eliminated everything.

Mr. Haggerty: Agricultural products?

Mr. Thompson: Everything. There was complete free trade, I think, with the exception of some cultural sectors.

Mr. Haggerty: But more so in renewable resources though?

Mr. Thompson: Yes.

Miss Stephenson: Most of the manufacturing is in Australia, as you know.

Mr. Thompson: The only thing the Australians were afraid of was the agricultural sector because they had a lot more to lose there. Even that was not really affected in any adverse way.

As I said earlier, I do not propose to sit down here and try to pretend to the members that what I am saying makes sense. I am sure you have had other people and have had every range of possibilities placed before you and I am sure you are going to hear a lot more stories before the committee ends its sitting. I am sure you all have very intelligent and well respected opinions yourselves. You can get 10 economists up and they are like 10 weather forecasters--

Mr. Haggerty: It depends on what scenario they are using. What is your answer though? You said you must consider the unemployment risk. What happens if you go this way and there are going to be numbers of jobs that are lost--

Mr. Thompson: Not entering or at least negotiating our free trade agreement could be just as risky, if not more so. When is the unemployment going to come down? Personally, I do not care whether it is the NDP, Liberals or Conservatives. I do not really think anyone can honestly say, "If you implement these policies, we are going to have unemployment down to five per cent by the turn of the century."

Mr. Haggerty: We will do what we did back in 1976. We raised it from three percentage points of unemployment, which was reasonable to live with, to 5.6 per cent and probably to get around that we would be raising it to 10 per cent saying we will have to live with that 10 per cent and then we will start all over again.

2:50 p.m.

Miss Stephenson: This is a statement which is made frequently about the fact that in the Treasurer's statement in 1976 there was a remark made about levels which would be considered full employment.

Mr. Thompson: Yes.

Miss Stephenson: There was an argument put by an economist that our old acceptance of three per cent unemployment as full employment perhaps should be reconsidered in the light of today's circumstances and put up to 5.6 per cent. Your party immediately stated, as did Mr. Mackenzie's, that this was the Progressive Conservative position, that a 5.6 per cent level of unemployment was therefore full employment in our minds.

Mr. Haggerty: I did not put it that way.

Miss Stephenson: However, it had nothing to do with the PC government. It had to do with the statement of an economist who had written a background paper for the budget. Is it reasonable? I do not know. Do you?

Mr. Haggerty: I do not know. That is what I am saying.

Miss Stephenson: What is full employment?

Mr. Taylor: Do you see how the Tories become victims of Liberal rhetoric?

Mr. Haggerty: I do not know about that. The question was directed to our witness. Is this what we are going to have to consider? They say the risks will be higher, so there will be more persons unemployed, and we will just raise the factor--

Mr. Thompson: No. What I said was I would be very surprised if there was not greater unemployment in certain sectors, but I also said that from what we have studied we believe it will be more than offset by increased growth, economic expansion and reduced unemployment in other sectors. There are going to be tradeoffs involved.

Mr. Haggerty: In what areas are you talking about growth? Where are the tradeoffs?

Mr. Taylor: That is what Smith and Lipsey are saying in the C. D. Howe Institute study, as I read it.

Mr. Haggerty: Has Lipsey presented any facts in that area, any documentation to take a hard-core look at that?

Interjection.

Mr. Haggerty: It is speculation, is it?

Interjection.

Mr. Haggerty: Would you invest in it, Mr. Taylor?

Interjections.

Mr. Chairman: We are commissioning some studies with regard to some sectors and their effect in Ontario.

Miss Stephenson: The Ministry of Industry, Trade and Technology in this province and the federal department are also doing studies of that sort. In Ontario, ours will be available when?

Mr. Chairman: January.

Mr. Thompson: If you want to read a study which deals specifically with each sector, there is one out by Richard Harris of Queen's and David Cox of the University of Western Ontario. It goes into the various specifics as opposed to broad-based macroeconomic policy, which looks more at the total picture.

Mr. Chairman: I understand it does not do much predicting for the near future, though. Harris is doing some other studies now to rectify that.

Mr. Thompson: Are you referring to the one released last year for the Ontario Economic Council?

Mr. Chairman: Is that the one called Harris and Cox?

Mr. Thompson: Yes.

Mr. Chairman: That is our understanding of that study.

Mr. Traficante: Harris admits there are certain failures or shortcomings in his study and is now working to rectify those.

Mr. Thompson: He was down with Ron Wonnacott for this conference, among others, and they dealt with certain sectors. They had been asked by the panel members regarding who would be the losers and winners. We hope we will have a 300-page edition of what was said available for you by the end of October. I do not know if it will be too late. I reviewed that last week, and he was fairly specific. This is not the study to which you are referring, however.

Mr. Chairman: I do not think the end of October will be too late. From what I understand, Ottawa also is rushing to do sectoral work now. If people in Washington were telling us the truth, they have not got anything up to date. They will be working on that, starting tomorrow, over the course of nine months.

Mr. Mackenzie: Mr. McFadden started with this in the questioning. The problem with your presentation is one we have had with almost every group which has been before us. You get a split among economists, the majority saying it is great and we should move to it--Lipsey and Wonnacott and some of those you mentioned have been very strong advocates of free trade--and you get a number of economists who say it does not make sense. However, we have had industry after industry, more than the list you covered,

which included beer, furniture, auto, textiles, shoes, packaging, and after three or four years of modernization going on, possibly steel, agriculture, and on and on, coming before us. People have given us a very clear picture of the downside in the number of jobs we will lose, the areas in trouble, those we may be able to do something about over a period of phasing in, and others where we cannot.

On the other hand, we have asked every witness before us, including the economists who have been very gung-ho about free trade, to give us the upside. You did the same thing today. We have actually had two expressions, "gut feeling" and "leap of faith" for some politicians, at least, faced with some of the problems we have in the economy and the job situation, which is a key one as far as I am concerned. I want a little more than just a leap of faith before I am going to buy that kind of argument. I kid you not; we have not been able to get the upside. I think we finally had cement thrown at us by External Affairs in Ottawa and I am not sure if we have had one beyond that.

Mr. Chairman: The United States trade representative said he had specific areas they thought they could--

Mr. Mackenzie: When it comes to studies, they have not been adequately done by anybody. The additional disturbing thing, I guess, is that our problem is more the United States dollar than anything else. If it was not so strong, how much worse would our position be?

One of my colleagues on this committee, not of my party but of the Conservative Party, made the statement "of all times to start it, when you have got such a dollar situation." That is a real question mark, whether this is the time to enter into it. The other thing that disturbs me is there is no push for this anywhere other than at the executive level in the United States, and in both the United States and here, to some extent, it is seen as the Canadian reaction to fear of the protectionist legislation that is coming up. What bothers me is when you start to negotiate because you are afraid of something, and when you have the situation with the dollar, I wonder how strong we are in any negotiations that are going to go on. We have got some real downsides.

Mr. Thompson: Do you feel we would be negotiating from a position of weakness?

Mr. Mackenzie: That is exactly it. As a matter of fact, although some of us thought he might have been a little bit too straightforward, one of the more straightforward chaps from the Senate with whom we talked at some length, raised that very issue. He said, "If you people are going to get into free trade based on fear of the protectionist legislation that is coming up, you ought to have something better and more positive than that to start with." That is exactly what we are faced with.

Mr. Taylor: Is it Mr. Myer you are thinking of?

Mr. Mackenzie: Yes, with respect to that particular comment.

Mr. Thompson: Maybe I could just ask the committee a question. How would you account for the fact that the Canadian Manufacturers' Association, which had been dead set against any possibility of free trade up until 1981, has turned about face and now is in favour of it, when supposedly this sector is the one that has got the most to lose?

Mr. Mackenzie: We asked them when they were here. Was it the Canadian Manufacturers' Association?

Mr. Chairman: Yes.

Mr. Mackenzie: Yes. We asked them just where their members stood on this issue and how they broke down with respect to those in favour and those opposed. At best, it was 60:40; that is what they told us. So there is obviously not unanimity among their own people, a very strong group.

Mr. Thompson: No.

Mr. Mackenzie: Even one of the advocates today on free trade said, "We are not speaking for all our members."

Mr. Thompson: Right. But when it has moved to 60 in favour--is that what you are saying?--and 40 against as opposed to 20 years ago when you would have had--

Mr. Mackenzie: I cannot tell you exactly. I asked them specifically and the figure we got was probably 60:40.

Mr. Thompson: But what I am asking is why the dramatic shift?

Mr. Mackenzie: That is very difficult to say. I suspect we will not get it from the auto industry. I do not think we will get it tomorrow from Mr. White when he is before us.

Mr. Thompson: I am sure you will not.

Mr. Mackenzie: You do not get it from the steel industry, from the steel workers. You certainly do not get it from the--well, there is a mixed reaction--lumber companies and they have got a major stake in it and are faced with major legislation that may give them some problems with status quo. A number of the major ones who are in some trouble have given us, "We would much rather be trying to do something to maintain the status quo."

I guess all I am really saying is when is somebody going to start telling us where the upsides are to it, because we ask it specifically. We ask those who want it and we are not getting it from any of them. I am not prepared to go on a leap of faith or an article of faith.

Mr. Taylor: You need an insurance broker to sell you a policy.

Mr. Mackenzie: I just wish somebody would start

articulating that a little more. For whatever reason, nobody has, pro or con, but the other side, very clearly, and even by some of those who are in favour of free trade.

3 p.m.

Miss Stephenson: May I just ask Mr. Mackenzie a question? I have not seen any documented figures, except in one specific area, related to loss of jobs or employment, the downside. There has been the same kind of gut feeling expressed as for the upside in almost all instances, and therefore I do not think the downside has been any better documented than the upside. Having that clarified, perhaps what we should do is ask this young man whether he thinks that in the long term this country has any alternative to enhanced worldwide trade.

Mr. Mackenzie: Just before that is answered, in reaction to Miss Stephenson's comments. There have been--I am not sure you could call them specific figures--in packaging we have some pretty good indications of what might happen.

Miss Stephenson: That is the one I was thinking of.

Mr. Mackenzie: In beer we had some very good indications, down to three major plants in this province at best. In steel we had some predictions as to what might happen. In textiles and shoes we had some predictions. So there have been specific figures there.

Miss Stephenson: The steel companies are coming in. They have not been in yet.

Mr. Chairman: Let us hear from Mr. Thompson.

Mr. Thompson: Before I answer your question, let me say I am surprised that steel and lumber would be opposed to free trade. I think they would have a lot to gain, based on the studies we have read.

Mr. Mackenzie: I am simply saying their people said status quo with our committee.

Miss Stephenson: That is not precisely what they said. This is the forestry people.

Mr. Mackenzie: They said do not think of this as being a free trade brief and I think the Hansard minutes will show the chief spokesman repeated the status quo about five times.

Mr. Chairman: The first people gave us different parts of their industry. There were some parts that would like the status quo, but certainly other parts of the industry wanted free trade.

Mr. McFadden: I think that is true of steel.

Mr. Thompson: Are you asking whether we have any alternative other than a free trade agreement?

Miss Stephenson: No. I am asking whether this country has any alternative to trade expansion in terms of its future. Is there a possibility that we could build a wall around Canada and simply trade in and amongst ourselves in this country and survive?

Mr. Thompson: Not a chance.

Miss Stephenson: Okay. If indeed there is no chance that we do that, and if we are a voluntary part of the General Agreement on Tariffs and Trade and if within the GATT arrangement there are specific increasing numbers of large trading partners, which have provided particular advantages for some of those partners, is there a disadvantage in looking at an arrangement which provides us with an opportunity to become a partner in a larger trading block in order to deal more effectively with GATT?

Mr. Thompson: That is basically what is being said with the agreement with the United States.

Miss Stephenson: I would hope, yes.

Mr. Thompson: As I said earlier, Canada is the only free market in a major industrial nation that does not have access to a market of more than 100 million people. It would seem the most logical solution would be that of the United States.

From the studies I have read, Mr. Mackenzie--and again, I can see you jumping on me for not being specific, I would agree with that. I would probably say the same thing if I was in your shoes.

Mr. Mackenzie: It is not just you. It is all of them.

Mr. Thompson: No, no. I can appreciate that. I am just going by what I have read and what I have heard at the conferences I have attended. There have been a lot of representatives from different companies, not industries, but companies, who have said, "We would relish the opportunity to compete with the United States, looking at a market potential of Canada and the United States combined of 275 million people as opposed to just the Canadian market."

There are going to be winners and there are going to be losers. I do not really know if anyone can tell you specifically who is going to win and who is going to lose. I think you get some people opposed to free trade being very vehement about it. Maybe that is the position they are in right now.

Again, that is a natural reaction. You have to look after yourself.

Miss Stephenson: Will it hold?

Mr. Thompson: I do not think so, not over time. If we are content to stay in the economic position we are in right now for a number of years, then we should maintain the status quo. Maybe we should compete by implementing more nontariff barriers.

The tariff barriers are going to come down.

Miss Stephenson: There is no guarantee that--

Mr. Taylor: There is no status quo. The world is too dynamic.

Mr. Thompson: Well okay, but as opposed to making any drastic shifts, one way or the other, you may argue it as being status quo.

Mr. Chairman: Are you suggesting that if we do not do anything we can maintain our present standard of living?

Mr. Thompson: No, I am saying the exact opposite.

Miss Stephenson: Mr. Chairman, there is not any doubt this committee determined right at the very beginning of its activity that although we were looking very carefully at an arrangement with the United States, we could not ignore, nor should we, the fact that what we should be doing is becoming increasingly active in the area of looking at this province's and therefore this country's trade relationships with the rest of the world and the role the relationship with the United States would play in that relationship with the rest of the world. That is the kind of focus we should keep before us when we are discussing whether in fact we should enter into any kind of an arrangement with the United States.

Mr. Thompson: By no means was I suggesting that by entering into a bilateral agreement with the United States we should ignore the Pacific Rim countries, the European Community--

Miss Stephenson: Or any other.

Mr. Thompson: --or any other, exactly. I am just saying 75 per cent of our exports are with one market. Being realistic, you cannot say: "We do not rely on them. We do not do this, we do not do that." We are very dependent upon them.

Mr. Mackenzie: Are we overdependent on the United States?

Mr. Thompson: I think so, but I am wondering what the alternative is. I would love someone to come up with a solution to make us less dependent and less at the whim of US policy decisions.

Miss Stephenson: That is possible, it seems to me, if we become sufficiently capable of dealing in a trade capacity with the US. We should at least become a good deal more active as traders in the world. We are the slowest, most inactive, inert, dumb--and I mean mute--people on earth when it comes to trading with the rest of the world. We do not even say anything to the United States, for heaven's sake. We have to get started or we are going to go down the drain. One or the other.

We are in much less danger of losing our sovereignty by developing a reasonable relationship with the US, which I think is possible, because I do not think we are any less smart than they

are. They may be bigger, but that does not always mean anything. If we do not do something now, this country is not going to be a country. We are not going to have any sovereignty because we will be so poor and so unable to do anything that anybody will be able to take us over.

Mr. Haggerty: How can you have free trade between Canada and the United States when you have trade barriers between states, as there is here between provinces?

Miss Stephenson: We have already said we have to get rid of our own barriers in Canada as well.

Mr Haggerty: You can take that approach and say, "Yes, it is good to go that way," but they are talking right now about putting a head tax on for Canadians going over there.

Mr. Thompson: No, that was taken completely out of context.

Mr. Haggerty: No, no. They tried it in other states. In Pennsylvania, if you come in by aircraft and land at the Pennsylvania airport, they want \$2 for head tax.

Mr. Thompson: I thought you were talking about Reagan making it part of legislation.

Mr. Haggerty: No, no. That is just the beginning of it. They have all of these tricks. I listened to a senator from North Dakota speak on this topic and he said, "Before you talk about free trade between Canada and the United States, we have to drop those barriers between states in the US." The same thing would apply here in Canada.

Mr. Taylor: That probably applies to our provinces.

Mr. Haggerty: Sure.

Mr. Chairman: It probably applies more so in Canada.

Mr. Thompson: There was a conference on Friday in Detroit where Governor James J. Blanchard of Michigan spoke, as well as Thomas d'Aquino from the Business Council on National Issues. Blanchard was very emphatic that this would never be passed in Michigan. They depend so much on Canadian tourism, that is the last thing they would want to see.

Mr. Haggerty: They tried it.

Mr. Thompson: Yes, I agree there are a lot of barriers between provinces as well as between the states in the US. Something else you would have been told before that I have not mentioned yet but you will have to consider, is the fact that even if we become very pro free trade and pose something to the United States, there are no guarantees that the United States is going to feel likewise. They are waiting for us to submit something, if we are going to take any action at all. Whether they are going to be responsive or not is another matter.

Mr. Haggerty: Congress is now considering putting a user fee or tax on all imports coming into the United States by container ships, etc. There is going to be a spinoff to Canada because of all the stuff that is going into Baltimore in the shipping lanes and coming up here by transport. That means there will be additional costs to Canadians to transport it. That is a trade barrier.

Mr. Thompson: Referring to what Mr. Mackenzie said concerning one economist who said that is not a very strong argument as far as entering into negotiations, if we are going to be faced with increasing protectionism from the US, I think Canadians are going to do likewise. Is that really a solution? By implementing more barriers between the two countries, are we gaining or are they gaining? I would be very surprised.

Mr. Chairman: We should try to negotiate them into not passing that kind of legislation. Basically, that is what the argument is all about.

3:10 p.m.

Mr. McFadden: I wanted to explore with you very briefly some of the options. I do not know what kind of work your group has done, but some mention was made earlier on about the textile and footwear problems. It seems to me the competition the textile, apparel and footwear industries are facing is not coming from the United States. It is coming from offshore, from the Far East.

Miss Stephenson: And South America.

Mr. McFadden: Yes. Canada and the United States have many common problems with respect to industry. The Americans talk about their deindustrialization just as we do. It is not unique to Canada, and the Americans are really feeling the pressure.

Vis-à-vis the broader issue, away from just the United States for the moment, have you done any research in terms of the benefits at the last General Agreement on Tariffs and Trade round with respect to the Canadian economy? Have you also had a chance to give any thought to what impact a new GATT round might be expected to have?

What I am getting at here, following up on what Miss Stephenson has raised, is that your three quarters figure is modest in relation to Ontario. Our exports to the United States are about 90 per cent now. If it gets any worse, we will not have any markets left in the world. A lot of that is the value of our dollar vis-à-vis other currencies. Some of it has to do with efficiencies and so on here, and the competitiveness of other countries, but I guess the worry I have at this stage is, what are the alternatives?

For at least the past two months we have basically focused on the United States. We go over and over winners and losers, but the one sure thing we all know is we are tremendously dependent on the United States, to an extent we have never been before. This is

a historic high, and it does not seem to be abating. I wonder if you have any information or anything relating to the broader picture with respect to GATT and the direction we might be able to push the federal government in with regard to our international stance, to perhaps reduce our dependence, or whether your studies indicate that would not be productive.

Mr. Thompson: I have not done a lot of research in that area. One of the other students has; he did his thesis on that exact topic. I am supposed to work with him in October.

I wish I could speak on his behalf, but if I have read correctly what he has done, he feels we would all be a lot better off as far as--if you are talking about the Tokyo round in 1987, the tariff barrier is coming down significantly, but I am sure you are well aware nontariff barriers are moving in and they take its place. The question is, when these other countries are using their tariffs as we are in Canada and as they are in the United States, are we really further ahead? In certain areas, because of the barriers that move in, whether they are quotas or the US Buy American legislation and that type of thing between states, I would argue--and I think my colleague would, as well--we really are not that much farther ahead.

By the time the Tokyo round of tariff cuts is completely introduced, there will be about only a 10 per cent restriction between the Canadian and US border. It is the nontariff barriers that pose the problem, and I think that is the situation when you are dealing with the global picture, as well.

Mr. McFadden: That is one way we have protected our clothing industry here.

Mr. Thompson: If you were asking me if I had a specific opinion about what we should do as far as the textile industry and others in that kind of bind are concerned, my opinion is not representative of the people with whom I work. I personally feel maybe we should not be in that kind of industry. If it is going to take government money, which basically is taxpayers' money, to keep propping it up, I wonder whether we should even be in it. I cannot see an end to it. If I could see Dominion Textile Inc. in Montreal becoming competitive in five years, that would be fine, but I personally cannot see the textile industry surviving in Canada without government subsidies and bailouts.

Something that bothers me, maybe as a taxpayer, is seeing what I consider good money thrown after bad. I think all political parties are guilty of it, yet I can look at it from their point of view, too. How does one rationalize or explain to the people who lose the jobs in those sectors, "We just do not think it can be viable"?

Mr. Mackenzie: It is a little more than that. Certainly that is a valid argument we may have to face, as to as to whether we are going to have to be little more picky and choosy in the type of development or industries we want in this country. I have difficulty with the job angle, but it is a valid discussion for us to get into.

It also raises the question--we discussed this to some extent in food--that we now depend on imports for many of the canned things we can provide 100 per cent in Ontario, such as canned tomatoes and a number of other things. If our nationality means something, and I think there is an element of nationalism in most of us, when does the ability of a country to maintain an industry mean something, even if it is only a toehold? Do we want to be totally dependent on Taiwan, Hong Kong, Korea, Pakistan--you name it--for textiles, etc.? One has to look at two very valid questions once you get into that.

Mr. Thompson: Okay, I can see that point. However, if we did become dependent on one of the countries you mentioned for a specific market, it too imports from us. I hope I am not reading from what you are saying that they could turn the screws on us in that specific market.

Mr. Mackenzie: I think they can. I am not making it on that basis. I am making it on whether or not I want to maintain some kind of ability to be a player on the field in any given industry.

Mr. Thompson: Whether that means spending taxpayers' money just to keep the--

Mr. Mackenzie: Right. Even if it means spending some taxpayers' money on the deal.

Mr. McFadden: The problem is that the track record of government intervention has not been very good.

Mr. Mackenzie: That is an argument we could debate all day. There are some areas where it is pretty good. We never would have developed a fertilizer industry without government intervention.

Mr. McFadden: But if you are going to maintain toeholds or prop something up, the problem you get into is the one we have in the high-technology industries.

The federal government, and to some extent the provincial government, made decisions that we wanted to maintain at least a bit of it, that at least some be Canadian-owned and generated here in Canada. Unfortunately, the Canadian operations that several years ago were the trailblazers are in financial problems. Some have gone out of business and others are being absorbed by British Telecom. But look at what happened in the forest products industry: the province and the federal government got involved there in re-equipping and modernizing and it has turned out well.

The problem government faces is that there are two agendas we have to work on at the same time. We have an economic agenda, which clearly is trade and other matters to do with what makes good economic sense. We also have a social agenda: what makes sense for our people.

This whole business of sunseting and adjustment becomes a

major matter for us in the sense that when you talk about somebody going out of business, it is not just an entry on a sheet. You have maybe thousands of people who wind up as entries. Maybe they cannot make their mortgage payments, they cannot educate their children, they are stuck. Perhaps in a one-company town, the company just closed. From our point of view, we have to wrestle with what all that means in human terms.

We do experience frustration and I do not know whether that is the kind of statement you can take back to your confrères. I think it is safe to say everybody here wants to create more jobs. It would be great if Canada could become a world leader in trade, if we could stop or reduce imports by being more efficient and by exporting. But our chief concern in this whole thing, as people come here and advocate free or freer trade and fair trade and all these other terms, is trying to get our finger on what this really means for people.

Unfortunately, we have only the sketchiest view right now. I think it is going to be very important, if we are ever going to develop a new approach to a national consensus, that people understand what all this means. Those of us who are in a spot here, where we have to make recommendations to government, have to get information that is more specific than what we now have.

3:20 p.m.

One would need a crystal ball to know the shape of the world economy in 30 years. I do not know if the world is contracting or expanding or what it is doing; none of us knows for sure. What we are worried about is just what adjustments we are going to have to go through.

Mr. Mackenzie: I think the challenge Mr. McFadden has thrown back at you is a valid one. I would disagree with him to the extent that I really do not think we have an economic plan or policy in this country. We do not have a clearly defined industrial strategy. A common thread in the hearings is that we have had three, four or five witnesses before this committee very clearly challenge us to find out through our discussions just what the industrial strategy of Canada is, what we are trying to do, and where we look for the more value added in industry and jobs.

I suspect one of the things we have to do to begin resolving the problems we are talking about is come up with our view of Ontario and Canada and figure out what we are trying to do in the way of an industrial strategy, because I do not think we have one.

Mr. Thompson: I would agree with you. I do not think we do, either. In regard to what Mr. McFadden said about social costs, I mentioned that earlier and I agree; I do not envy the position of potential job loss you are faced with. It is easy for me to sit here and advocate a certain measure, but I am not the one who has to go back and explain to constituents why a certain industry is going under. You would have to say that, according to these economists, it is because a certain industry in another sector and another province is supposedly going to benefit. Believe me, I recognize that and I do not relish the thought of

what you would have to do if you were faced with that situation.

I guess what I am asking is, does this really mean we cannot negotiate with the United States? From the studies I have read, there seem to be a lot of potential benefits. How concrete they are is subject to disagreement among different members. I would also agree with what Mr. Mackenzie said. I do not think we have an industrial policy or framework in Canada. I think it is something that Carl Beigie has pointed out in almost every talk I have heard.

Being American and now living in Canada, he seems to bring a different perspective from that of the people I have heard speak. I was impressed more with him than with anyone at the conference last year. He, too, emphasized the fact that we do not have any direction in Canada and, by entering into a bilateral free trade agreement with the United States, he is not advocating the decisions being made in Canada. They could even be Washington policies per se.

Mr. Chairman: If we did have an industrial strategy, we would not likely have a textile industry for very long.

Mr. Mackenzie: We might not. On the other hand, one thing that impressed me about Sweden a good many years ago--I think it was back in the 1950s, right after the war--was that when they were faced with the fact they were not competitive and not likely to be able to compete, they made a conscious decision to close down the cotton end of their textile industry; but the difference from Canada was that they paid for 95 per cent of salary, retraining, and moving expenses. Everyone was taken care of from the day it closed down. That is not what happens here in Canada.

They decided they would maintain the specialty textile end of it, the woollens and specialty goods, and they let about 20,000 people go almost overnight, kept about 16,000 in the specialty and woolen end of it and really put the money into developing that as an area they could compete in.

To me, that was a hard-nosed planning decision as well, but the downside they did not have, and we do have, is that there was also a framework in place so nobody suffered as a result of it.

Mr. Thompson: Maybe I could make one last point regarding that issue--

Mr. Mackenzie: It all depends on what you have to cut out and what you have there to deal with the results of it.

Mr. Thompson: I would also like to consider the fact that the money being poured into keeping these industries operative, the finances, might be better channelled into retraining, mobility or transition measures for the people who would lose their jobs.

Mr. Mackenzie: If we knew that before; that is one of our big problems.

Miss Stephenson: It is easier to make those determinations in an expanding economy, as you said, than in a shrinking one.

Mr. Thompson: Yes. Do you just keep throwing in money to keep these plants operating continuously if you cannot see that down the road it can compete on its own? It does not really make sense. It seems to me you are rewarding inefficiency. Maybe what we had is too simple; I do not know.

Mr. Haggerty: I do not know who started this business of free trade with the United States.

Mr. Chairman: They say we did.

Mr. Haggerty: Yes, but maybe we should be looking deeper than that. Perhaps the idea is that the United States wants free trade with Canada and that it pretty well controls the market in North America. Now that the industrial revolution has hit Taiwan and China and that area, through new technology sent over from the United States, we have ended up competing with them.

Take the automobile industry: in the Saturn project that is going to be built in Tennessee, it takes some 200 hours to build that car now but they are going to be able to do it in less than 30 hours, with one third the work force. That is just beginning in the automobile industry. The question is, what are you going to do with all the jobs that will be lost?

Drawing a parallel to what you said about the textile industry and free trade with the United States, they could supply Canada with all the agricultural products. We could shut down every farmer in Canada. They have a surplus there. There was previously a market for our wheat in China but today they are exporting wheat. We have to compete with them. Argentina has 350 million acres more in wheat this year and will be flooding the market. Stockpiles of grain are on the American side and you will find them here in Canada, too. It will be difficult to move grain this year.

The Americans are pretty smart; their businessmen are clever. It is not a good idea to put up another economic market in North America. They will have control of it and call the shots and eventually we will have to compete with them.

Mr. Thompson: Do you think Canadian businessmen are capable of competing with Americans?

Mr. Haggerty: The majority of plants here are pretty well controlled by Americans now. I am talking about the larger multinational corporations.

Mr. Taylor: In fairness, you may be proceeding from a false premise. That premise is that the Americans are anxious to entice us into an agreement for free trade. That is not the impression this committee got last week in Washington.

Mr. Haggerty: I do not think they would want any part of

it.

Mr. Mackenzie: We do not know what will happen to the branch plants. No one has clearly defined that yet. If we have free trade, if we opened it up, do we face even further rationalization? What is the purpose of keeping a plant going up here that was set up really to supply the Canadian market.

Mr. Haggerty: Look at all the industries that pulled out of Buffalo and went down to the southern states. One reason was the cost of energy--it is cheaper to heat plants down there. That is the way the trend seems to be going. They are doing it to compete with the Mexican trade coming into the picture--cheap labour, no cost to operate their plants 12 months of the year. They may have to put in air-conditioning, I do not know, but they have the energy and this is world trade. I think it is one area the United States is looking into to see if it can get the Canadians to come in on a free trade agreement. Canada has the resources and maybe that is what they are looking at.

Mr. Thompson: I think one of the major reasons, if at all, would be that it would set an example for what Reagan wants to see worldwide. If it was not for his cabinet's inner circle, I do not think you would see quite the push.

Mr. Haggerty: You are protecting the wealth of a few Americans, that is what it boils down to. He wants to make sure that is going to continue. They are not going to do it for nothing.

The Vice-Chairman: Perhaps the major impression we got last week was that the main concern in the United States right now is with the Pacific Rim and Brazil, and the impact those countries are having on the United States. If they put up protectionist barriers to those countries, we might be in a better bargaining position to take on the Pacific Rim. That can be done as well as dealing with the United States, as Dr. Stephenson has said.

Mr. Mackenzie: We also acknowledge we might get sideswiped in the process.

Mr. Haggerty: Who took the technology over there in the first place and who financed it? It was the Americans. Now they have to compete with that. There is just no end to this vicious circle. I do not know what the answer is.

3:30 p.m.

Miss Stephenson: There is not an end to it. We have to keep moving. This is the whole point. We cannot look back to the comfortable way things were in the 1950s and the 1960s or the beginning of the 1970s. Our economy is not expanding at the rate it was at that point. The difficult decisions we will have to be making must be made in the light of our current circumstances, in which there is an economy which is not growing very dramatically.

Mr. Haggerty: Has it grown throughout the world? It has not. It has almost remained stable.

Miss Stephenson: It has slowed down, but in a number of places it has grown quite dramatically.

Mr. Haggerty: In the projections by the economists, it is to remain like that till the year 2000 and beyond.

Mr. McFadden: It was predicted in the 1960s that there was unlimited growth.

Miss Stephenson: That is right.

Mr. Haggerty: How wrong they were.

Mr. McFadden: Actually, the Pacific Rim countries have had growth way in excess of ours.

Miss Stephenson: That is right.

Mr. McFadden: There is no doubt about it, the areas of growth in the world have shifted away from us and our growth relative to the rest of the western world has been bad in the last few years.

Mr. Haggerty: Sylvania, working at a plant in Dunnville, Ontario, used to produce television sets and parts and completed them here in Canada. It was shut down. Do you know where it went? Over to the Far East. They were looking at cheap labour and higher profits.

Miss Stephenson: They went to Japan first.

Mr. Haggerty: They have it, but now they have to compete with it, you see.

Mr. McFadden: The Japanese are even exporting their growth, setting up plants in other countries because they can do it cheaper elsewhere.

Mr. Haggerty: They have to, to bring their balance back. That is right.

Mr. McFadden: In Korea, Indonesia and other countries, those shifts are going on all over the world. We are not going to stop it here.

Miss Stephenson: The point is we cannot stand still. We have to look at what is happening and decide what we need to do for Ontario, as part of Canada, in order to ensure we compete appropriately in order to maintain a reasonable standard of living.

Mr. Mackenzie: I agree with that, but it had better be done now within our own economy so we become more competitive.

Miss Stephenson: That is the question we are asking. Can you put a bar around Canada and do it? Everybody we talked to says no. They say we have to do some of that, more than we do now, but that is not the solution.

Mr. Haggerty: That is right. The old argument here in Canada is to put tariffs up and remove competition. You maintain the status quo. I suppose if you open it up and say, "Let us get more competitive," again, until that American dollar changes, you are not going to be competitive because nobody is buying American products now. I think you go all the way with free trade.

Mr. Thompson: Something you also should realize is, if we enter into negotiations with the United States, they are talking about 10 years as the minimum before it even passes through legislation in both Parliament and Congress. This is not going to happen overnight. The negotiations themselves are going to take a couple of years.

Miss Stephenson: Or longer.

Mr. Thompson: Yes.

Interjection: By the time you act to resolve them, the problems have changed.

Mr. Haggerty: One of the arguments you put up at the beginning was that there is a risk of losing jobs. However, you also said incomes were too high in Canada.

Mr. Thompson: Did I say that?

Mr. Haggerty: You said wages were one of the things; that incomes are too high, we outprice ourselves with the United States. I am sure you said that in your opening comments, or something to that effect.

Mr. Thompson: No. I will definitely leave a copy of what I said.

Mr. Haggerty: I am talking about the parallel you drew, that we outprice ourselves because of the higher incomes here.

Mr. Thompson: No. What I said was that the wage cost differential between Canada and other countries--

Mr. Haggerty: That is what you call it, wage cost; sure, higher income.

Mr. Thompson: Okay. I was not talking about the United States; I was talking about the other countries, the Far East specifically.

Mr. Haggerty: I thought in your opening statement you were comparing the United States and Canada.

Mr. Thompson: No. The only comment I made comparing the United States and other countries was that as far as the Canadian dollar is concerned, I said it was overvalued in respect of all countries with the exception of the United States. As far as the wage cost differences are concerned, I was talking specifically about the Far East, and the fact that in some countries, such as Singapore and Malaysia, you can pay \$2 an hour, can you not?

Mr. Haggerty: I am sure we do not want to go to the living standards of some of those countries.

Miss Stephenson: Nobody is suggesting we should.

Mr. Newman: Remember the nickel hamburger?

Miss Stephenson: That is one of the problems we face, and this is one of the challenges.

Mr. Taylor: What this country needs is a good five-cent cigar.

Miss Stephenson: Mrs. Bajor will tell us what this country needs is a good five-cent beer. Right?

Mr. Chairman: I am wondering about the two treaties you mentioned that the United States cancelled with non-communist countries. You mentioned there were two since the Second World War.

Mr. Thompson: There was one with France. I honestly could not tell you the other.

Mr. Chairman: It is not that important.

Thank you very much for your presentation. Perhaps you do not realize it, but you have served as a very good sounding board for getting some of the opinions of committee members right out on the table and into the record. We have heard a lot of your opinions, as you probably were aware, before you came in here, but this is the first time in some of the questioning that the committee members have actually got their opinions out, and that is a great advantage to Mr. Traficante and me.

Mr. Taylor: We were impressed with the chairman's silence.

Mr. Thompson: I thank you all for giving me this opportunity. I teach economics and international business part-time at the college in Windsor, and the adult students there pose some interesting questions. As I was flying up today, I was thinking I would be in for more of a grilling here than I had ever had in my classroom, but I enjoyed it and it has definitely provided some food for thought for me. I will go back and try to do more work.

The problem I face is that I have my own personal beliefs, and I must confess--

Miss Stephenson: Don't we all.

Mr. Thompson: Yes. Maybe I tend to weight what I like to read or hear more significantly than I do those views that are opposed to my own personal beliefs, yet I still try to be as noncommittal or objective as possible.

Miss Stephenson: Can you send us the information about

the two contracts the United States cancelled that were not with communist countries?

Mr. Thompson: Okay.

Miss Stephenson: It is sheer curiosity.

Mr. Thompson: I could send the entire outline from the conference last November. I doubt whether you have the time to go through it with a fine-tooth comb, but a lot of it would be beneficial.

Miss Stephenson: Mr. Traficante is a very good précis writer.

Mr. Chairman: We appreciated it very much, too. It was certainly well presented. Thank you for the effort you put into it.

There are a couple of things I want to mention. I probably was a little frivolous earlier in indicating that the material sent by the economic council could be weighed in kilograms and so on. They would seem to be valuable papers, and I just want to place it on the record that we are grateful to the council for sending these papers. I thought after I had made my comments that perhaps they might be taken the wrong way.

Mr. Taylor: We certainly did not interpret them in that fashion.

Mr. Haggerty: Would you pass that down for all the members now?

Mr. Chairman: The material has good tables of contents, and we might well be looking at specific things for specific purposes.

Miss Stephenson: Is this the Ontario Economic Council or the Economic Council of Canada?

Mr. Traficante: The Economic Council of Canada.

Mr. Chairman: Committee members should note that tomorrow and Wednesday we are meeting in room 151. I guess the standing committee social development will be moving to Varsity Stadium.

Thursday's session will be cancelled. We are trying to get the Canadian Business Equipment Manufacturers' Association scheduled for another time to accommodate the Conservative caucus; and similarly the business of Tuesday, September 24, we are trying to reschedule to another day to accommodate the Liberal caucus.

The committee adjourned at 3:39 p.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

TUESDAY, SEPTEMBER 17, 1985

Morning sitting



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Substitutions:

Haggerty, R. (Erie L) for Mr. Cordiano  
Hennessy, M. (Fort William PC) for Mr. Bennett

Also taking part:

Rae, R. K. (York South NDP)

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the United Auto Workers--Canada:

Gindin, S., Research Director

White, R., Director for Canada and International Vice-President

LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, September 17, 1985

The committee met at 10:10 a.m. in room 151.

ONTARIO TRADE REVIEW  
(continued)

UNITED AUTO WORKERS--CANADA

Mr. Chairman: This morning we have some people who need no introduction. Frankly, we have been looking forward to this session for a few weeks with great anticipation. I do not think I need to say any more. Bob White, the director of United Auto Workers-Canada--

Mr. White: We are wearing two hats these days.

Mr. Chairman: With him is Sam Gindin, research director.

Mr. White: Mr. Hargrove is not here.

Mr. Chairman: Bob has a formal presentation which has been distributed. Perhaps if you just go ahead, we will attempt not to interrupt until you have finished and then we will ask questions.

Mr. White: Thank you, Mr. Chairman and members of the committee. I am glad to have the opportunity to appear here this morning. Let me just say that in some circles there are people who are pooh-poohing the work of this committee as not being important because it is a provincial committee and this really is a national question.

I have spent a great deal of time thinking about this and this committee's work is extremely important. I think the free trade issue affects Ontario dramatically but I think Ontario can carry the issue on a national basis. It really is a national question, not just an Ontario-based question. The government and political leadership of this province can be national voices in what I see as a fairly one-sided debate taking place nationally. This committee's report will be important in the continuing national debate on this issue. That is the first point I want to make to the committee.

Although the case for economic ties is being articulated by the free traders, the ironic reality is that the issue has been placed on the agenda, not because of free trade, but because of the United States' rejection of it in some areas. That is what caused us to look at this question.

They are raising issues affecting what we thought were open trade arrangements with them. It is the fear that such trade may no longer be in the interest of the United States rather than the

philosophy of free trade that has led Canadian business interests and governments to address the question of special economic status for Canada in the US market.

Once we put the issue in the context we think it ought to be in, the obvious question becomes: What is in it for the United States, as well as for Canada? What price will it exact in exchange? Would we, in essence, be asking the United States to give up some of its autonomy with regard to defending American jobs? Would the United States be interested in a deal that clearly demands limits on our autonomy in influencing the location of investment on our jobs? The basic issues that you have to look at: What is in it for the United States, what it would be asked to give up and what would we be asked to give up.

When you look at it, the United States already has a great deal of access, not to mention domination, over the Canadian economy. It can already influence our policy without making its own concessions, as we say we have witnessed because of the Mulroney decision to weaken the Federal Investment Review Agency and the national energy program. In spite of the fanfare about the close personal and paternal ties between the Prime Minister and the United States President, there has been no subsequent easing of US restrictions on various successful Canadian exports to the United States. If you look to the future, both our countries have already agreed to implement, under the General Agreement on Tariffs and Trade, further tariff reductions over the next few years.

It was interesting this morning, as I glanced through the paper--I think maybe some of you share our view--that it is not surprising that in many parts of the United States there is a relative lack of interest in the debate which is taking place in our country on the matter of free trade.

We currently have a surplus in trade with the United States of more than \$20 billion. Rather than downplaying this fact, we now seem to be trying to highlight it by calling for negotiations. We pose the question: Do we really expect the United States to say, "That is, of course, fine; what else can we do to let you increase the surplus or, at least, to maintain it?" That is an important question we have to ask today.

Similarly, when we raise the question of the implications of bilateral free trade negotiations on the existing auto pact, we are told that this particular sector is working well and will be excluded from any deals. We ask this question: Do we really think the United States is going into these discussions to exclude the largest sector of trade between our two countries, which is the auto pact, in which we currently have a large surplus and in which we have some very important safeguards to protect Canada's interest?

The point is we would not be entering into such negotiations from square one or on the basis of any degree of equality. We are a dominated junior partner and with tariffs already low, the primary focus of such negotiations from the United States' perspective would be to achieve a level playing field and the end

of nontariff barriers. I have seen that terminology used throughout the discussions in the United States.

Nontariff barriers include anything that interferes with market decisions. What we are really talking about is the political control over setting the direction of our economy and the priorities of our society. I do not think that overstates the case at all. That is one of the fundamental issues that we have to put into this equation and into these discussions.

For example, when we talk about developing an industrial strategy for Ontario or for Canada, we are talking about interfering with the decisions of the marketplace. Therefore we are talking about introducing or strengthening the so-called nontariff barriers. When we talk about correcting past regional inequities, we are again talking about using nontariff barriers to correct or change the decisions of the marketplace. Getting rid of nontariff barriers means, for example, getting rid of lower stumpage fees for British Columbia lumber and reducing natural gas prices to make Alberta's chemical plants more competitive. It means eliminating marketing boards and support programs for the farmers in Saskatchewan and Manitoba and eliminating content provisions to provide spinoff effects from Manitoba's hydro projects. It also means the cessation of support for an aerospace industry through public ownership of de Havilland Aircraft in Ontario and Canadair in Quebec and of subsidies to attract investment to such provinces as New Brunswick.

As the Americans have been increasingly emphasizing, even our social policies such as unemployment insurance and our national health care system represent nontariff barriers to free trade. I was interested, as I watched the discussions between the provincial premiers of the east coast of Canada and the governors of the eastern states of the United States, to see the unemployment insurance for fishermen raised as an unfair subsidy for the Canadian fishermen with respect to their trade with the United States.

10:20 a.m.

Once we have agreed to severely limit all such barriers, the corporations will have more flexibility to shift facilities and jobs to where they will get the best deal. Having given up most of our countervailing tools to balance this power, we will, in our judgement, be left vulnerable to the exploitation of this power to further worsen the distribution of income taxes and to restrain wages and improvements in working conditions. We will be required to limit progress in community standards, such as pollution controls, plant closure legislation, unemployment insurance, equal pay laws, etc.

So we will be left in the unenviable position whereby progressive uses of the government to influence where jobs go are outlawed as unfair competition. At the same time moves to introduce progress for working people, which obviously include costs, are undermined because it will be argued that they damage our competitiveness.

Most of the business community and the economics profession have been emphasizing the positive effects of a new relationship with the United States on economic growth and higher per capita gross national product, and they have been downplaying the tradeoffs. They readily admit there will be losers but when asked to explain where the winners will be, the answers become curiously vague. We are asked to have faith in the ultimate workings of the market and the numbers churned out in their economic models, and we are asked to make, as the Macdonald commission terms it, a leap of faith. I think anyone who remains sceptical of this direction has the firmest foundation for being so.

The present structure of the Canadian economy--its relatively weak manufacturing base, its technological dependence, its uneven regional distribution--is, after all, in large part a consequence of leaving our economic development to the workings of that very same market. Why should we now believe that the same strategy of economic dependence on the United States and the so-called market place will change, rather than simply reinforce, what it did before?

What evidence is there, for example, that our one-industry communities and various resource-dependent provinces will be diversified if left to the market place? What convincing argument suggests we will suddenly emerge with a machinery industry or expand into the very same high tech sectors that every state in the United States is dreaming of and bidding for?

Those who are arguing now for faith in the ultimate benevolence of the market are the same people who, not long ago, argued that double-digit unemployment was gone forever. They are the same people who, a few short years ago, argued that the market had judged the auto industry and ruled that we should let it disappear. They are the same who now use the industry's role in leading whatever recovery we have seen to cite auto as an example of the success of free trade.

The truth is, as I mentioned earlier, that the auto industry represents quite the opposite. The really significant fact about the auto pact between Canada and the United States is, in this context, the past recognition on both sides of the border that Canada must have safeguards, tariff and nontariff barriers, in order to survive an economic relationship with the United States. Those safeguards, among other things, retained facilities in Canada that might otherwise have been closed during the past recession. We can talk about some of those.

They are the kind of long-term safeguards the United States and the free traders have already made clear would not be offered in other sectors. In fact, in the context of a general free trade agreement, even these existing auto pact safeguards would soon be under extreme pressure. Without such safeguards we would also lose much of the leverage we have been using against overseas corporations to match the auto-pact commitments and provide investment and jobs in Canada.

I think that is a very important point. Here you have the largest trade agreement between our two countries, which

recognized that even though it is a totally integrated industry there had to be some basic protections for Canada in it. Those protections came into play during the depths of the recession to keep certain facilities here and get certain product lines here.

Equally important is that now in our discussions with Third World countries, such as South Korea and Japan, the auto pact provided the basis for those discussions. It became very important to talk to corporations in those countries about the importance of making a commitment to this country based on some measure of investment of jobs and content, and a commitment to the market place based on market share.

If a free trade arrangement with the United States is entered into, they will want on the table that a new auto deal will not include the protections Canada currently has. I do not think anybody can seriously believe we are going to set aside this largest trade agreement with the United States as not being part of these discussions. They will be part of the discussions, despite all the pontifications some people are making about that.

As for those who glibly proclaim that the tradeoffs we will suffer to allegedly achieve greater efficiency are worth while, we pose the question: Worth while for whom? For us, the so-called tradeoffs mean giving up much of what we believe economic activity should be about--security, expanded social services, and improved equality. For them, the same tradeoffs are hardly considered losses. They have always attacked these things as limits on the private sector and lobbied against them.

I want to comment further on this attempt to characterize the free traders as forward-looking realists with confidence in Canada's capacities, while those of us who oppose it are somehow characterized as backward-looking defeatists, with our heads in the sand. There is really nothing new about the notion that societies should be subordinated to the dictates of the market and corporations' bottom lines--this goes back more than a century, and it has been reincarnated in the most recent times in Thatcherism and Reaganomics--nor is there anything new in the idea that Canada should achieve the special status of being another state. Those who argue that we are so dependent on the United States that we have no choice but to become even more dependent can hardly be credited with confidence in our collective potential.

We cannot respond to fears about our current dependency on, and vulnerability to the United States by advocating even more dependency and vulnerability. What do the realists expect to happen if we have an agreement, which the United States threatens to end down the road unless we make further concessions, such as surrendering our water rights if we still have them? Will the realists then say, after having encouraged a degree of integration that far surpasses what we have today, that we realistically have no more options for independent action? What do the realists say about maintaining any kind of an independent culture or foreign policy and therefore meaningful sovereignty, once an independent economic base is effectively gone? I do not think that overstates the case at all.

We are not suggesting, nor is the labour movement in this country, that trading relations with the United States are not important, because they are. We currently have enormous flow of two-way trade between our countries, and under the General Agreement on Tariffs and Trade, by 1987, 80 per cent of Canada's exports to the United States and 65 per cent of US exports to Canada will be crossing the border under duty-free status. Nor am I denying there are important problems of access existing today, but I say those will have to be debated and, if possible, resolved on an ongoing basis, rather than naively pursuing a bilateral agreement.

It seems to me that if you look at how Canada has done, if you look at the steel industry and the problems we had there, at the lumber industry, I think Canada has done relatively well trying to minimize the problems with those. I think that is what you have to do in this kind of a relationship, and surely the answer to solving those is not to become more economically integrated, which will, in turn, raise many more problems.

What I am emphasizing is that the issue today should not be whether to increase our economic integration into the United States, but noting our already incredible level of integration, how can we reduce the degree of dependency? We should not be talking about enhanced trade, but of enhanced Canadian content to reduce import dependency, which in the manufacturing sector ranks among the highest in the world in terms of deficit per capita.

We should be asking how can we do more research and engineering work; how can we process more of our resources before they are exported; how can we build more of the machinery we use to get access to these resources and how do we develop a manufacturing base so that we have skills and capacity to meet our needs and flexibility to adapt to a changing world.

Freer trade with the United States will not mean Canadians will feel more secure, but will, in fact, leave us less secure. It will not fulfil the promise of new jobs, but risk the loss of existing jobs. It will not make Canada a better place to live, but will put severe pressure on the survival of a politically sovereign Canada. Without underestimating the difficulties, we want to emphasize our confidence in building a different, more progressive society north of the 49th parallel. We think increasing our integration into the United States represents a dangerous, perhaps irreversible step in the wrong direction.

Those are our opening comments, and we will be glad to try to answer any questions the committee may have about this issue, about our thoughts.

Mr. Chairman: Thank you. Mr. Mackenzie has a question.

Mr. Mackenzie: Mr. White, I just have four things that I want to raise with you. First, you are right; there was no apparent interest in either the Senate or the House in terms of free trade talks. There was interest at the executive level, the argument being that this was how you defused the protectionist sentiment. It is fair to say that is probably what is driving us

into the talks, as well. There is a fear of the more than 300 bills before the United States House.

I have the feeling, and I wonder if you concur, that negotiating in an effort to diffuse protectionist legislation is not a very positive way of dealing with the issue. It seems to me we are negotiating from a position of weakness and not of strength.

Mr. White: I think we are. Of necessity, we have to discuss the areas that directly affect certain trade between our two countries such as lumber, the Manitoba problem and fisheries. If there is a large pocket of unemployment in the United States, such as in the lumber industry in the western part of the United States, then regardless of what the trade arrangement is with our country, if we do not think that is going to raise enormous political pressures and that people will call for changes in the relationship, we in Canada are naïve.

It happened with the auto pact. We did not think we were getting our fair share of trade with the United States and we did not stop raising the issue when there was unemployment in Windsor and other communities; it was vice versa with the United States. We are not getting much flak today because the employment levels are fairly high. However, if those employment levels drop, do we really believe that, with us carrying an enormous surplus in the auto pact, there will not be pressure in the United States to change the rules? Of course, there will be.

All I am saying is it is naïve to expect that we will somehow have enormous influence on the political decision-making process in Washington in changing that. I think your view of the thing is correct, unless you are talking about discussions on a particular problem. I think we have an obligation to do that.

Mr. Taylor: I think there is need for some clarification because Mr. Mackenzie has interpreted the 300 or so bills that are protectionist in measure as somehow being aimed at Canada and that a Canadian response of free trade would diffuse that move.

My impression, and I would be anxious to learn yours, is that there is a reaction by the congressmen of the United States to a worldwide condition of unfair trade, to what is happening to its trade deficit with such countries as Taiwan, Korea and Brazil; there are all kinds of them. It is just that Canada as another foreign country will be caught in the net that is cast as the US responds to what it considers protectionism and unfair trade on the part of the rest of the world, with the United States having been open to the receipt of commodities that have put it in a trade imbalance.

A bilateral arrangement with Canada is not going to diffuse that congressional mood in terms of its response to the world. What it will hopefully do is eliminate to some degree Canada's presence in that net. The aim is not directed at Canada. On the contrary, there are bills that specifically exempt Canada. For example, the one on textiles is mindful of Canada's position.

We are perceived in the United States as being a fair trader. There are aberrations. We have learned of some such as the softwood industry. There are some problems with hogs and raspberries and so on. However, I think we have to look at Canada's posture in regard to a larger picture.

Mr. Chairman: I think that is correct. Our finding in the United States was that it is not impossible that an agreement could complement some of the protectionist feeling. I do not know that your brief has really addressed the problem of that feeling in the United States. You are open to the charge that you may be speaking from an element of real security for your own industry that may not be there for other industries.

Mr. White: First, I do not speak just for the auto industry. I speak from the base of the aerospace industry and from the base of the Canadian labour movement that makes up the textile industry, the communications industry and a number of others.

Second, I say to Mr. Taylor that I never thought 300 bills were directed at Canada. However, I want to caution you that if you look at the trade imbalance, Canada is second with the United States, right behind Japan. We ought not to minimize that either.

Of course, we have a special relationship with the United States. We are a very important importer of US goods. I think they understand that.

The question is, are we going to continue to highlight that and somehow become more economically dependent and, if we do, do we really think we can withstand the wave of protectionism which in some cases will be directed against Canada, as it is today?

Mr. Taylor: Also, I may say it has been pointed out, when you take into consideration the invisibles and so on, it makes a big difference in terms of the deficit.

Mr. Mackenzie: If I can continue with the three questions I had, and there should be just a comment. I do not think my remarks inferred all of the bills were designed to hit Canada. There is a sideswipe effect, which we certainly were warned about and are aware of. But a number of the bills are designed to hit Canada. One or two have been mentioned. Fisheries is another one where there is a direct aim at Canada; it also occurs with hogs, raspberries and in the lumber issue. So we do face this.

If we entered into comprehensive talks--and certainly the word "comprehensive" was stressed when we talked about it in Washington--would we not also risk merely highlighting the many irritants, such as the very issue of whether or not we have to deal with unemployment insurance, which is what keeps the fishermen going for the seven or eight months of the year they are not able to fish in Newfoundland, and the problems in the lumber industry?

Conversely, there are our efforts to deal with some of the US countervailing moves, which at least one of the witnesses in

Washington made very clear to us would not be on the table. I worry that if we enter into comprehensive talks, we are likely to highlight the irritants that are there already rather than solve some of our problems.

Mr. White: I think you will, but I think the rules are there. I presume if you are in the talks, the United States is going to bring those to the table. I have been at enough bargaining tables to know that the other person you are meeting with usually has something to say and something to get out of the discussions. There are a lot of issues in the United States.

There is a Mazda plant located in Michigan where they have something like \$135 million in the state in support. That is under an agreement when people are talking about free trade today. How does Canada compete with that? We cannot. So we highlight those issues, but I think those issues will be highlighted from the United States without us doing it.

Mr. Gindin: I just want to emphasize, when we talk about the fact the auto pact has safeguards in Canada, that should be put in the context that in the US it does not. In other words, what you are highlighting is the fact that Canada has safeguards that the US does not.

Mr. Mackenzie: One of the arguments we have had from a number of advocates of free trade before this committee is that we simply have to be, I think the word is "internationally" competitive in the world today. There are an awful lot of connotations to that, but I am wondering what your response would be to that argument.

Mr. White: If you are talking about absolute free trade and international competitiveness, that means the corporation should have the right to determine where it is going to locate, what the rules will be and what the products will be. I do not come from a world that accepts that.

If you really thought you got all the jobs because you were internationally competitive, we would not just have 42,000 General Motors workers today, we would have something like 142,000 because there is no question of the competitiveness of the Canadian auto industry. It is very competitive with the United States.

If you want to talk about offshore, that is an entirely different argument. Look at the US trade imbalance around the world today. Are we saying that integrating with the United States makes us more internationally competitive? Surely not.

Mr. Mackenzie: Finally, there has been a case made--some members of the committee keep asking just what you mean by it--by a number of witnesses before the committee that one of our shortcomings in this country is we really do not have an industrial strategy. We have not decided what we are all about, what we want to do and what we think is necessary for the betterment of our country.

What is your feeling about the need for some form of industrial strategy for our country?

Mr. White: I think we have to have it. I am always amused by a business community that talks to us about how competitive we must be with Japan, but dismisses, for example, that country's enormous industrial strategy, which includes business, labour, the banks, export and import regulations, and in which they take a look at their economy and the key sectors. In fact, they do plan it and plan it well, keeping certain imports out and having restrictions, etc.

10:40 a.m.

I think Canada has to do that. We have done some of that by looking at it sector by sector on national commissions, as we did with the task force on the auto industry and some other committees. I think we have to do that on a national basis. We have to have a planned industrial domestic strategy and plans for any relationship. One cannot leave this to the marketplace. That is our belief.

Mr. Mackenzie: My final question to you is in terms of a report. It is hard to say yet just what will come out of this committee, although I have the feeling that whatever we do has to be strong, but it also has to be positive. I do not think it is good enough to say we do or we do not agree with enhanced, expanded or free trade, or whatever you want to call it, but that we have simply got to make that kind of appeal for some form of industrial strategy, for a look at import replacement, self-sufficiency or content legislation.

Were you in a position--maybe it is a little unfair--of writing a report such as this committee must, would you be making positive recommendations, as well as, "Yes, it is good," or, "No, it is not good," looking at the possibilities of more free trade?

Mr. White: If you would like us to write the report, we will take a run at that. I do not want to go too far down that road. I think all of those are important issues, but what concerns me about Canada is we are getting this thing like a baby gets pabulum, one spoonful at a time, until we are accepting it. People are saying: "Do not worry. We are just entering these discussions, but we are going to keep all our social programs and all the protection we have," and the next thing we know we are in all the way.

That is my concern. This committee, seriously, has an important role to play in this national debate. I hope it will not be a wishy-washy report that tries to come down on both sides of the issue. I think it should come down clearly on the national question, not just the Ontario question, in opposition to it because I think it needs a national voice in Canada doing that. I think this committee can play that role.

Mr. McFadden: I would like to ask two or three questions. First of all, I am trying to determine whether you are

suggesting that the federal government not enter into any discussions with the United States on trade irritants or enhancement at all, or are you suggesting you are not in favour of a total free trade agreement? I am just trying to determine exactly what--

Mr. White: I suggested two things. First of all, I am absolutely not in favour of a free trade agreement, and I think our discussions with the United States today should be limited to the trade irritants they are raising. If we have some, we ought to raise those. We really ought not kid ourselves. The national direction that is being taken is not about dealing with trade irritants, as I read it. It is about how we become involved in a free trade arrangement, how we get to the table politically to do that. That is where I think we are in Canada today.

To deal with trade irritants such as fisheries and lumber, we need to have discussions, as the steel industry did when they were limiting imports from Japan and Canada had to make a case before Congress on that. That is a different issue. We have to make those, but the answer is not to start talking about how we sit down and negotiate more trade agreements with the United States or a more bilateral trade agreement framework with the US. You have to look at where we are in terms of our surplus with the US today and ask yourselves the question, what are they going to bring to the table?

Mr. McFadden: I guess they have to ask the same question. Suppose we were to sit down with a selected list of topics. I take it what you are proposing we do is go at it on a sectoral basis, in the sense that we would look at lumber and other areas the Americans are criticizing us about and try to negotiate some sort of an arrangement where we would not be subject to retaliation. Is that the--

Mr. White: I am saying you try to work out those irritants, yes.

Mr. McFadden: What is your tradeoff? What are we giving them? If we are going to Washington saying, "We do not want you to touch our lumber industry," and they say, "What are you offering?" we do not say, "We are not offering anything. We are just here to tell you to give us a break." What exactly are you suggesting we put on the table? As you know, in any negotiation there has to be some give and take. What is it that we are giving or taking if we tackle them just on irritants?

Mr. White: What you are doing is responding to their interference in the trade arrangement that has allowed access. I do not think you have to take any extra access to our market to settle that. I turn the question to you. Obviously, if that applies in a small irritant, how does it apply on the overall question? What do we bring to the table for the United States to get out of a free trade arrangement with Canada? That is the question.

Mr. Guindon: We have free trade in lumber.

Mr. McFadden: The lumber industry told us that it is both in favour of and against free trade. They want free market access to the United States for the products in which they are competitive. On the other hand, they do not want us to bring to the negotiating table other sectors of the same industry that they do not want brought in. I am trying to figure out exactly how you enter into a negotiation such as that. If they will not remove an irritant or will not remove the possibility of an irritant, what then is our response? What are you proposing we do?

Mr. White: You may have to bear the consequences of that. There may not be a tradeoff so that you can solve that problem with the United States.

Mr. McFadden: If they put quotas on our lumber industry, that would just be the end of that.

Mr. White: It may be. You may not be able to strike any arrangement on that or you may be able to limit the damage, depending on the unemployment situation the United States faces and whether it views the Canadian lumber industry as being fair or unfair. Do you bring to the lumber table some other industry we are doing well in and open that up?

Mr. McFadden: That is what I was trying to explore with them--who they were proposing to trade off for them to secure free trade or--

Mr. White: Most people will trade someone else off.

Mr. McFadden: That is what I detect and I am just trying to get at what you are proposing.

Mr. White: I am saying I do not think you do that. I think you try to minimize it. If you look at the US economy today, it has an enormous trade imbalance. You can argue why it is there, but we should try to minimize the problems we have with it wherever they are raising problems; most of them are coming from their side of the table.

Mr. McFadden: With regard to page 4, you list all the nontariff barriers the Americans talk about such as stumpage fees, reduced gas prices, marketing boards and so on. It seems to me that is an area where we could do some negotiating. In my view, the Americans may have more subsidies than we do in the sense that if you look at the kinds of breaks you can get to locate in an American state, there is realty tax-free land for 10 years, perhaps free land altogether, and industrial revenue bonds no matter where you go. There are all kinds of subsidies right, left and centre.

My feeling is there are more subsidies to attract industry in the United States than we have in Ontario right now, so that if you are talking about trading, they might wind up having to give up more subsidies than we do. I am not talking about stumpage fees. Looking at it from Ontario's point of view, if you put New York state up against Ontario, subsidy for subsidy, New York will

win in terms of direct government subsidies. There are other reasons people locate in Ontario besides subsidies. I am saying state to state New York could beat us.

Mr. White: Do we really believe we are going to beat that power structure? Look at the General Motors decision to locate Saturn in Tennessee. General Motors sat in that beautiful building in downtown Detroit. The governors came in, five at a time, pleading to them to locate there. General Motors, the richest corporation in the world, got a bagful of money and put the operation in Tennessee.

Do we really think that because we want to enter into some free trade arrangement and are prepared to give up something on unemployment insurance in the fisheries, those governors who are desperately demanding jobs in their economy are going to give up the right to give \$131 million to Mazda, as Michigan did? It is not going to happen with the US political system.

Mr. McFadden: At the same time, that means we will not have to give up ours either. I would be inclined to think it is a quid pro quo on subsidies.

Mr. White: I am not persuaded it is. However, I am concerned because I think we have a fundamentally better social structure, even though we have some criticisms of it, than the United States does. I think it is up for discussion here and I am nervous about what will happen to it.

10:50 a.m.

Mr. Gindin: Can I take that a step further? Using the example of the auto industry and the question of Japanese investment, we have been arguing against free trade and in favour of content proposals, so the Japanese companies that sell here have to make a commitment here. If you do not have content proposals, that is exactly what you end up doing, namely, bidding in the way you said. You end up with the Japanese saying, "We will come if you pay us to come." That is the consequence of moving away, of some kind of regulated trade. You will find the competition comes out in other forms. There will be the bidding of jobs, or with respect to labour relations.

Interjection: That's happening worldwide now.

Mr. McFadden: The area of social services was one about which I made a point of asking, as did other members of this committee, and I think the people in Washington, without exception, including the lawyers we saw, members of Congress, staff and administration all said they did not know where we ever got this idea. They know it has been talked about in a general way by some people, but they say they would not consider social policies as part of a free trade arrangement. They would not expect it to be under discussion, with respect to unemployment insurance, medicare and social programs of that nature. I think all the parties here are united on that. When we raised it with the Americans, they said that was really rhetoric and no one would seriously consider even proposing we get rid of our unemployment

insurance plan or our medicare program.

Mr. Haggerty: Is that not what the Macdonald commission has said, and Macdonald himself, that you have to sacrifice all of those programs for the benefit of free trade? It is right in the report.

Mr. McFadden: I do not care what Macdonald said. I am reporting to you what the Americans said last week. They understand that would not be negotiable, and I think we all made it clear that from our point of view, nothing in Ontario means it would be negotiable on the basis of social programs. None of them said, "We insist on it." They all understood.

Mr. White: How do you then balance that with what the east coast governors raised with the provincial Premiers on the unemployment insurance subsidy to fishermen? How do you balance that with an industry that says, because you have medicare your labour costs are about \$4 or \$5 an hour less and therefore that is an unfair competitive edge you have in Canada? I do not know how you balance those two. They are really saying the same things the Prime Minister is saying today. We are not going to trade our social programs. I hear people talking about a level playing field. What does that mean?

Mr. McFadden: It depends on where you are coming from. We have a different version of a level playing field than they do.

Mr. Gindin: It also means that, once you have negotiated free trade, even if you do not put the health care programs and the social security system on the table, when you move to a totally free trade arrangement in which things can flow back and forth at will with respect to corporate decisions, you end up with a problem. For example, if you try to improve day care in one country, the argument would be, "That makes us less competitive, because it is costing too much and diverting resources." Those things come up.

Mr. White: Let me say this. If we thought this created jobs and did not affect our social programs nor political sovereignty, we would be a little nuts to go around arguing against it. The labour movement is pretty interested in those things, important social programs, jobs and political sovereignty in this country, but when you are asking for trade that is not the case.

Mr. McFadden: That is the problem we have here right now. We do not have studies that tell us very accurately what the impact could be. If you have them, you will perhaps make them available, but what we have received is a number of opinions from economists and different sectoral groups, all telling us it is going to create an enormous number of jobs, or that it is going to create none and people are going to be unemployed. I do not even know if it is possible to get those figures, but there is no doubt we are having a hard time getting to a lot of specifics. Hopefully, over the next few months, between all of us at all levels and everywhere, we will get some studies that may indicate possible impacts on employment.

Mr. White: I think you are going to have different points of view; you are bound to, on such a basic question as this. You will have different arguments from different sectors of the country. You can argue about whether the national energy program was right or wrong for this country, but do we really believe there was not enormous pressure from the United States to change it, and that we changed it to accommodate the United States? If we changed the Foreign Investment Review Agency to accommodate pressure from the United States, where do we make our first speech about the fact that Canada is open for business again. That was under an arrangement in which we are not totally economically integrated, as we would be under a free trade arrangement. Ask yourself the question, what happens to important decisions if you are?

Mr. McFadden: I guess the problem of the New Democratic Party is the thousands of people who lost their jobs with the consolidation of all the service stations and--

Mr. Gindin: That is not the point.

Mr. White: I am not debating the NDP program. I am -- saying, whether the program was right or wrong, it was surely Canada's right to make that decision, but that was not how it came out.

Mr. McFadden: This will be the final question. I guess we are all worried about where we go from here as a country. Historically--and to an increasing extent, I think-- Canada has depended on exports as a way to create job opportunities for our people. In Ontario today, according to the figures we have received anyway, 30 per cent of our work force is dependent on exports.

We know the American marketplace is potentially vulnerable to protectionist legislation. Second, and perhaps just as important, their economy could go into a tail-spin potentially and thus deprive us of our export market. This is particularly true if the American dollar were to start dropping. It could make us very vulnerable in exports to the United States.

One of the mandates of this committee--sort of a mandate the committee itself developed--was to look past our relations with the United States at trade options available to us in the broader context. I think we are all mindful of the fact that Ontario's exports go 90 per cent to the United States; we are even more dependent. It is an unhealthy situation to be in--when one of our customers makes up 90 per cent of our business.

With regard to the auto industry or more broadly to the union movement, what is your view with regard to other markets that realistically are available to us and how to develop those? That is one thing we are trying to wrestle with here--how we can get back to somewhat more of a balance in our trading relations.

Mr. White: I think for many years to come, the United States will still be our greatest marketplace. In spite of the

irritants there today, you are absolutely correct about what our economy depends on. If the United States economy goes into a tailspin, the Canadian economy will be affected by that, as the world economy will be. The United States is still one of the main economies of the world and we are so integrated with that we cannot help but be affected by it.

Are there other opportunities for us to pursue trading relationships? Yes there are, but we should not overestimate those. There are even greater opportunities for us also to pursue what we are pursuing today--for example with Japan and the auto industry. We must pursue the matter of content and the requirement of people not just to sit in their country and ship in, but also to make some commitment to our marketplace so we get some jobs.

There is a lot of talk about how the change in our union would drive investment out of the auto industry. Since that time we have got Honda, Toyota, Hyundai and a possible General Motors-Suzuki joint venture. But all those came about because we are talking about import replacement coming here. There will be certain areas where we will be able to trade with Japan and with the Pacific Rim, and those are important to us. I still think the largest trading market with Canada for many years to come will be the United States.

Mr. Guindon: May I go back to the question raised earlier about what experience do we have that we can draw on? We have not done any studies that one can put numbers to, but we have enough experience in a number of industries. We have experience in the agricultural implements industry, and the answer there is that free trade is not the magical solution obviously. It is easy to see that the problems go much beyond free trade and even in aerospace free trade is not going to be a magical solution.

What is striking about the auto industry is the fact we did have safeguards rather than free trade. Second, all the problems we are talking about right now are primarily relationships with countries other than the United States--the question of overseas imports. Finally, one of the advantages we have with the United States is the question of exchange rates. You would have to ask whether the United States would allow Canada, in any kind of so-called free trade arrangement, to undercut the United States by having unilateral control over exchange rates.

In the food and beverage industry where we are involved, free trade would be damaging. If you look at industries such as steel, we are involved only in the sense that we are major importers of steel, but what happens in steel depends very much on what happens to things such as machinery and office equipment.

If you take a look around the world, no one has established those kinds of industries where a country has not had a base in the past except through protectionism. The only people who argue for free trade in sectors such as machinery and office equipment are those who are competitive already. It is the ideology of those people who are competitive.

That is not how the Japanese developed any industries. If

you look at the history of their auto industry, they only began to articulate free trade when they were in a position to take advantage of having achieved their status through protectionism. Less than one per cent of their market right now is imports.

We have not done anything with respect to giving numbers or jobs lost.

Mr. McFadden: I guess the conundrum we are in though is we have got a fair degree of protectionism in this country with various things, and we still have the things you mention. I know we can go on for some time about the reasons for those, but after all these years we still have not really improved ourselves--or a lot of us--without a fair degree of protectionism.

Mr. Guindon: Sure we have protectionism but we do not with respect to tariff structure. What you are talking about are those things we normally identify as political sovereignty.

11 a.m.

Mr. Ferraro: I have two or three questions I would like to ask the witnesses.

Mr. White, you made mention of the fact that we certainly need a national strategy. I think I probably asked the question to the same degree that Mr. Mackenzie has asked: Who are the winners and the losers in this scenario?

We are dealing with the question of national strategy and with the premise that in this country, and to a large extent in Ontario, there is a confrontational aspect between management, labour and, to some degree, government. I hate to keep throwing up the example of Japan where there seems to be much more co-operation. There are a lot of reasons for that--culture and so forth. How do we resolve that? Or do you agree that there is this confrontational aspect? Where do we start?

Mr. White: I think it is really overstated. A great deal of problem solving goes on every day between labour and management in Ontario and in Canada. People are sitting on a number of committees in labour, management and government. Japan's political system is different and its cultural developments are different. Its history is different and therefore its labour relations are different.

When I met with the Japanese industry a number of weeks ago, I said: "You cannot expect to transplant the Japanese labour relations system into a Canadian environment. You can bring some of it, but you also have to accept that the environment in which we grew up is the one we know best. While our labour relations change through time, as yours will, you cannot expect to transplant those."

I think it is very important, when you make an argument, to see how that has not scared away the Japanese.

Mr. Ferraro: So are you saying that we are starting to

be reasonable with one another in any event?

Mr. White: No. It is not a question. You overstate the case of whether we are starting to be reasonable with one another. We represent the working people in this province and we are going to articulate their problems at the bargaining table with the corporations we represent. Many times we will see eye to eye, but there will be many times when we will be in substantive disagreement with them.

We intend to pursue the issues on behalf of the working people. This does not mean that drives industry out of Ontario; it has not in the past and it does not show in the auto industry today. We represent a high-profile union which conducts a fairly aggressive collective bargaining policy. But again, I think the confrontational aspect is overstated in many areas.

Mr. Ferraro: I have a second question, Mr. White, if you could afford your comments on it. It appears now, at least unilaterally for the moment, that the federal government is going to be saying to the United States, "Let us look at this."

Mr. White: I am not sure. The Prime Minister is not going to announce it till after my appearance today, so maybe he is rethinking it.

Mr. Ferraro: I hope that is true.

Mr. McFadden: That is what we have heard.

Mr. Ferraro: At least until the papers come out tomorrow morning anyway.

It seems somewhat, for lack of a better word, awkward that what we want to talk about here is a national discussion between Canada and the United States when we do not have free trade as a country. I point out--as I am sure you are well aware--the beer industry. Is that not a little chicken and egg or cart before the horse?

Mr. White: We all have certain conflicts which we would rather not talk about. It is like collective bargaining. You do not put your worst position on the table; you put your best position on the table. It is the same with the arguments I am making today. They are the best arguments. I would not put the worst ones out here.

There are certain trade problems between certain provinces in Canada and you have to work at those, but that should not stymie us from talking about whether free trade with the United States is a positive or negative matter. All I am trying to say is if Peter Lougheed, an almost ex-Premier of Alberta, can make what he thinks is a national issue, surely this committee and this government can make it a national issue. It should not be sidelined by people saying, "Well, that is just industrial Ontario speaking from a selfish point of view." There is a national voice to be heard and I do not think we ought to be side-tracked by the fact we have problems between provinces.

Mr. Ferraro: I reinforce that and my boss has articulated Ontario's position and concern.

Mr. White: Who is your boss?

Mr. Ferraro: Mr. Peterson. My final question, Mr. Chairman--

Interjections.

Mr. Ferraro: Now I have secured my position for cabinet in the future. The last question I have is regarding page 10. You said we are one of the highest in the world in terms of deficit per capita for importing, certainly in the manufacturing sector. I understand the only country that beats us is Saudi Arabia.

I want you to address, if you can, one particular positive aspect of free trade, if I can get this out of you. I might also add that Ontario's deficit with Japan is \$1.5 billion right now, but nobody mentions that too much. One particular positive aspect that has been suggested is that if there is a free trade arrangement--although the monetary situation is extremely volatile--we will get tremendous investment because of it, which would subsequently increase Canadian content.

Mr. White: With Japan or--

Mr. Ferraro: I guess from the other--

Mr. White: I ask myself the question, why?

Mr. Ferraro: If you have free trade with the United States, and I am an investor in West Germany with lots of money and I want to open up a Mercedes-Benz plant, I am going to get 30 per cent more for my buck if I come to Canada unless they have that market.

Mr. White: If you look at where the money is going today, it is to the United States from around the world. I read some numbers this morning that Japan is the second-largest investor in the United States, a country that is carrying an enormous trade deficit. So I do not think there is any guarantee that if you have a free trade arrangement with the United States, you are going to get a large amount of investment. We had to push like hell to get the Japanese into this country, even though they would have access to the United States under the Canada-US automotive trade agreement. But the political pressure from the United States is such around the world that if they want to exert it, they will get the advantage.

We were told that if we lifted the lid off of the Foreign Investment Review Agency, we would get large amounts of investment from the United States. I have not seen these billions and billions of dollars that have been hanging around waiting to come in here. It just does not automatically happen. It will not happen just because of a free trade arrangement.

There are people who want access, who look at Canada and talk about the importance of Canada and access to the US market. That is important for certain amounts of investment but a lot of it will go to the United States, as a lot of Canadian investment is today.

Mr. Gindin: You still get the investor saying, "We will come if you give us subsidies." The situation with the Japanese was that we had free trade access for them under the auto pact. It is there, in writing. The argument was still, "What happens if down the road the United States changes that?" It is always going to be that kind of question.

Mr. Ferraro: I am hung up with the aspect that some have said that increased investment will come to Canada, Canadian content and so forth. It has been almost overwhelmingly indicated by various witnesses that there is no way Canada can sustain itself based on our population. It is the North American market that is going to entice investment.

Mr. White: We are not suggesting that Canada's trading relations with the United States should cease, that they are not important, because they are. Also, we ought to understand that Canada is a very important market for the United States as well. We are a very important trading partner of the United States.

Mr. Gindin: The biggest.

Mr. Chairman: I will interject a couple of supplementary questions because I am not clear what your answer was to one of Mr. Ferraro's questions concerning interprovincial trade problems. They are not terribly significant in the auto industry but they are in others. What is your view on breaking down those barriers?

Mr. White: Obviously we ought to try to do that. We ought to have a relative flow of free trade across our own country. A number of those issues have been there for many years. The political system in Canada is available for people who want to get at those.

11:10 a.m.

Mr. Chairman: All right. Second, I would like to ask a supplementary to Mr. McFadden's question concerning some of these bottom lines that we consider to be the fabric of our society.

When we were in the United States, the answers we got generally reflected the lack of awareness of some of the concerns being serious. There was no suggestion that anybody wanted to go after unemployment insurance or a health plan. Most of us were suggesting that one of the things that should be on the table is countervailing procedures in the United States. If that is not on the table, we perceive that while the Americans now are saying in all good faith that they do not want to come after some of these things, somewhere down the line that may be seen in a different light.

I would like to draw on your experience as a negotiator. How much should we be putting on the table? Let us presume Mr.

Mulroney is going to say we should start to talk to the Americans, and let us presume this committee's report has to be based on that as a fact. How much should we be putting on the table?

Mr. White: You can put whatever you want on the table. However, if you raise buy America programs, state subsidies, city subsidies and all that, it is naïve in the extreme to think you are going to get at those under the US political system. The people dealing with those at the administration level have absolutely no control over what is going to happen in the states of Michigan or New York if they are desperate for jobs. To think that we are going to work through that morass and somehow get that levelled off is naïve.

I am from the school that says, "Once you enter into those discussions, you leave yourself vulnerable for people to say: 'That is very nice, but what about your social programs? What about the programs we are talking about?'" That is where the danger comes. That is why we ought not to start down that road.

If I have a good collective agreement with an employer, I am not going to rush in halfway through that agreement and suggest we ought to reopen it for negotiations. I do not think that makes any sense.

Mr. Chairman: No.

Mr. White: All I am saying is that in our relationship with the United States there are some problems today. We ought to focus on those problems and not go in with a big umbrella saying, "We want a blanket to cover everybody," because then you would raise all the problems you had not thought of up until then. I do not think that is a good negotiating stance for Canada.

Mr. Chairman: Are we not then in danger somewhere down the road when the circumstances look very different from now? When a specific industry such as fishing is worried, are we not in danger in having the subject brought up when we have not locked it into an agreement so it cannot be brought up?

Mr. White: All I am saying is that I do not think you can get any agreement with the United States that will protect us in Canada if there is a given problem in a certain sector of that country that is creating large-scale unemployment, etc. If we think we are going to be isolated from the political pressures that will eventually come to Congress or wherever as a result of any free trade arrangement, that is looking at the impossible.

I do not think it is going to happen, and I do not think it would happen in our country. If we had a free trade arrangement with the United States, and Ontario had 15 or 20 per cent unemployment and we had thousands of auto workers laid off, do you not think this government and committee would be saying, "We have to change the rules"? Of course we would. We are not going to be isolated from that.

Mr. Gindin: What you end up saying is, "We do not want to be treated like a different country." We are asking the United

States to say, "We are not going to do anything to you that treats you like a different country." That says you want to be treated like another state. That is what you end up asking for if you want those kinds of guarantees.

Mr. Chairman: I am not following that. What do you mean?

Mr. Gindin: If you are asking the United States not to interfere in its own interests in any way in its relationship with Canada so that it cannot respond to high unemployment in fisheries or lumber, what you are ultimately starting to ask for is that it treat Canada the same way it treats another state of the United States; that it not treat Canada in any discriminatory way. That is not going to happen unless Canada agrees to pay the price of being treated like another state.

Mr. Chairman: In other words, you are saying they are not going to agree to what we would consider to be a level playing field.

Mr. Haggerty: I have a question.

Mr. Chairman: Is it a supplementary question? Mr. Rae has a question.

Mr. Rae: Do you mind? I want to come in briefly and try to get in a supplementary on that point.

One of the things I have found from going down to the United States and talking to social democratic groups and trade union audiences is that--I heard Mr. Kelleher quoted as saying that if the Democrats are elected and gain a majority in the Senate and the House of Representatives, it is going to be a disaster for the rest of the world, which historically I find a little hard to accept as an argument.

I would like to know what kinds of arguments you think we should be making to deal with these protectionist arguments that are directed against Canada at times. I agree with you that there is no blanket protection and that any country that thinks it can wrap itself in a treaty and hope to protect itself--those kinds of arguments are not going to work. One of the problems we have is credibility. We go to the United States, saying, "Please let our stuff into your markets," while at the same time we are saying we should be increasing Canadian content. It is pretty hard to have all the arguments on your side.

Mr. White: Yes, but there are a lot of people in the United States who make the same argument about increased US content. They have buy America programs; that is their counterargument to it.

We have to deal with the problems. If there is a problem in lumber, we have to see how best to come out of that. We cannot hold up some other industry that is doing relatively well and trade that off for lumber. That does not make any sense.

I see the federal people going in the direction of saying we will put them all on the table; we want to talk about all of it.

The US economy, its monetary policy and the politics of the United States will always seriously affect Canada. We cannot isolate ourselves from that because of the economic circumstances. Until now we have been reasonably able to make certain important economic and political decisions. To come totally under this umbrella would limit that.

Nobody who is making the argument for free trade, to my knowledge, has shown the Canadian people where the development of jobs will come from as a result of it. You have to assume some of those jobs are coming from the United States. I think it was Mr. Baldrige who said free trade would create jobs in both countries. Again, the auto industry is an example of that. There are probably fewer jobs today, relatively speaking, than existed before the automotive trade agreement. It has shifted around a bit.

Mr. Rae: You are saying that if your industry had a free trade arrangement and no pact that required a percentage of value added in Canada, why would you have a plant located here rather than somewhere in the United States?

Mr. White: Today you might have, because there is an enormous cost advantage.

Mr. Rae: Wage rates and everything else.

Mr. White: But if we went into a recession, it would be so simple to close the Chrysler truck plant in Windsor and add a second shift at a much larger facility in Detroit. There, one would not have to meet certain requirements. We kept the Chrysler truck plant in Windsor because of the requirements in the Canada-US automotive trade agreement.

Equally important--I do not think you were here for the discussions--how would we have gone to Japan with the argument about their making some commitments to Canada on the same basis as the Americans did? How would we have done that if we had not had some protection?

Mr. Ferraro: Let me play devil's advocate for a moment. There was a recession in the United States; we kept the plant open in Canada because we had that pact. Does that not reinforce the argument that if there were a free trade pact, the United States would still--

Mr. Rae: No. The only reason the auto pact works is that it has valued added in it.

Interjection.

Mr. Rae: You have a content requirement.

Mr. Taylor: He is talking about honouring the pact.

Mr. Ferraro: I am talking about honouring more than anything else.

Mr. White: They honoured that pact because if they had not kept that facility here, they would have had to pay \$240 million in duty remission. That was their honouring of it.

Mr. Ferraro: Can we do the same thing with free trade?

Mr. Rae: Then you are not talking free trade. You are talking about a content agreement.

This is partly a rhetorical question. I hope you will agree with me, Mr. White, that it is disappointing, to say the least, that there was no discussion of the problem of foreign ownership in the Macdonald report. How can you talk about our trade with the United States unless you realize the majority of that trade is taking place between parent companies and their subsidiaries? If you change the nature of the tariff relationship and the pricing arrangements between those two companies--which are not independent companies--and create a free trade pact that has no content requirement in it, then you have a recipe for the depopulation of this country.

Mr. White: I lived in a relationship within a union that was reasonably progressive, and I had some arguments about it. I can remember arguments at the international level of that union, among sectors of the United States, as to why we had certain facilities that were not laying off employees when they were laying off in the United States. The argument I came up with was that we had a trading agreement that specified certain commitments under it.

11:20 a.m.

Mr. Ferraro: I am still not clear why you cannot have that same type of specification in a free trade pact.

Mr. White: Let us say you are the Canadians and I am the Americans, and you come with a free trade agreement proposal to me, and I say, "Okay, free trade." Then you say: "Just a minute. Under that free trade agreement we want to have certain protections."

Mr. Ferraro: We want to phase in; we want to have dollars.

Mr. Gindin: Not temporary.

Mr. White: Not temporary. If I were the American at the table, I would say: "That is a pretty nice free trade arrangement for you. When things are going well, I will share; and when things are going bad, you share." That is not free trade. Free trade means you do not have those protections; you go with the ups and downs of the economy.

We are not talking about free trade between two countries of similar size. We are talking about free trade between a very large, powerful economic nation and a country that is much smaller. It is like the elephant sleeping with the mouse. The mouse keeps nice and warm, but the elephant rolls over and the relationship changes dramatically. That is where it is at.

Mr. Gindin: It is not only that the people who are supporting free trade are totally opposed to the kind of content

and safeguards the auto pact has. If you start mobilizing people around the question of free trade, making the arguments for free trade and getting free trade in other sectors in a blanket arrangement, you start putting even the safeguards under the auto pact under attack. It is not a question of spreading them; it is a question of losing those safeguards we have.

Mr. Ferraro: One could argue that they are under attack now because of the protectionist attitude.

Mr. Rae: I have one more question on that score, and then I will leave. Over the years, have you found resistance to the auto pact idea growing from within the American political and economic system, from congressmen from Michigan, Ohio, and elsewhere?

Mr. White: In fairness, only when there was a recession and there were a lot of layoffs. That is bound to happen. But our union, on both sides of the border, has been supportive of the Canada-US automotive trade agreement because we saw it as important for the industry for integration and production. We also clearly recognized certain commitments to Canada. There were times, when the domestic international sales corporation program and all that came in, when, even under the auto pact, it gave a lot of favoured status to the United States.

Mr. Haggerty: Having listened to Mr. White this morning, the only thing I can add is that bargaining is the word. Government is a process of bargaining as it is with unions. One has to be very careful when talking about the auto pact because the larger corporations, such as Ford and General Motors, on the American side have agreements with the Japanese automobile industry which may have some serious consequences on the production of automobiles in Canada. Thankfully, they are looking at locating in Ontario. Even with the trade agreements we have with the United States in the auto pact, through that agreement they may be funnelling Japanese cars through the back door if we are not careful enough.

Mr. White: The whole situation has changed since we signed the agreement in 1965. Now there are Japanese investments in the United States that have cut off a large section of the market that Canadians used to have access to. The corporations are joining with the South Koreans, the Taiwanese and the Japanese, bringing in cars and parts from all around the world. So it has changed dramatically from what it was in 1965. But I still want to stress the importance to Canada of that agreement and the protections we had, and the importance of those protections for bargaining with the Japanese and the South Koreans.

Mr. Haggerty: If we are talking about the free trade, which Mulroney and Reagan are discussing now, it seems they may be using a cosmetic approach to free trade and getting the press out of it. Meanwhile, the Congress in the United States is looking at other pieces of legislation that would erect increased trade barriers. That is what they are heading for.

I do not know--I am new on this committee this week--whether there is someone reporting directly to this committee on the

happenings and the debates in Congress. Is the legislative library making services available so we can be in direct contact with the debates going on in Congress and be well aware of them?

I attended two sessions this summer; one was in Quebec, at the Commonwealth Parliamentary Association meeting, where there was a discussion on free trade. I would suggest that the Prime Minister of Canada, the Premier of Ontario or any of the Premiers should be discussing or having some dialogue with certain members of the European common market.

If you talk to some of the members from Britain, they will tell you it is great to have these trade agreements, but they have to be fair. There is always something in any of these agreements--it can be the smallest thing--that can stop production in a certain country and cause layoffs, etc.

For example, one of the discussions was about the fishermen in Nova Scotia who fished off Sable Island with that new agreement that was signed. They had a good market there for swordfish. The fishermen on the east coast of the United States objected to it because they were capturing the market. What happened was they came out with the word that the fish were in polluted waters; so they stopped fishing in there. Who has the market now, catching the same fish in the same waters? American industry.

Mr. Chairman: What was the committee you were attending?

Mr. Haggerty: The Commonwealth Parliamentary Association. I would suggest this committee should be having some dialogue with or bringing some experts over from Britain to discuss this, without sending 13 or 14 members there and about 20 others. Let us bring the experts in to open up and give us their knowledge in this area of free trade.

The argument the British put up is that it has to be free trade but, most important, fair trade.

Mr. Chairman: That is a good point. One of the things we were told in the United States, though--and we are trying to keep track of Congress as closely as we can--was that some things happen in Congress, apparently in the middle of the night, that result in bills suddenly being passed the next morning.

Mr. Haggerty: When they want to move down there to put in trade barriers, they will move quickly.

Mr. Hennessy: Thank you very much for attending the meeting, Mr. White. You have helped our deliberations from the other side of the fence.

There were questions asked and suggestions made when we were in Washington. Some items are very difficult; we know we are not going to win on those. Is it possible, or do you think it would be a good idea, to put those on the back burner and try to get the things we can agree on readily and then go back to these other items, such as agriculture and things like that--the raspberries, the hogs and so on--to try to work out a compromise afterward? At least in that way you get partially started on some kind of agreement.

Mr. White: That assumes you want an agreement. I come from the other side of the issue that says we do not want a free trade agreement with the United States. You have to put the issues of controversy that are there currently and creating the problems. Again, I want to remind the committee that the reason we are having this discussion in Canada today is that certain sectors of the United States have decided they no longer want free trade.

Mr. Hennessy: And do not need us.

Mr. White: And do not need us. They are raising certain problems with that. What I am saying is that those ought to go on the table with the people who are involved in those to see if you can minimize those irritants and not allow them to expand.

I do not understand the rationale that says the way to get at those is to put everything on the table and start down the road to economic integration under a free trade arrangement. I do not accept that. That is the wrong way to go. I do not think that is what is going to be announced tomorrow, but I am still going to try to do my small part to articulate the other side of the question. That is why I think this committee's report will be important.

Mr. Hennessy: You are not in favour of putting it partially on the table?

Mr. White: You cannot--

Mr. Hennessy: I am just asking you. The question has been suggested by people at this committee. I am only using what they have said many times.

Mr. White: Mr. Macdonald said in his report that if you enter into free trade, you make sure you protect certain industries and social programs; you put in all these pieces. If you assume that, then the Americans are going to send some pretty different negotiators to the bargaining table, if you are going to come up with that arrangement. Remember that arrangement will have to be ratified by a Congress which today is pretty upset about some of the trade agreements and arrangements they currently have.

Mr. Chairman: The American agreement with Israel left out the service sector, simply because they thought it was too complicated and they were going to talk about it some other day.

11:30 a.m.

Mr. White: Yes. But let us not compare the US agreement with Israel to where we are going. Already the economic interdependence in the multinationals--

Mr. Gindin: They also left open the question of the United States producing any kind of countervailing things if it does not like where it is going.

Mr. Chairman: I am sorry?

Mr. Gindin: The agreement with Israel also allows the United States to have all kinds of countervailing measures if it does not like where the agreement is going.

Mr. Chairman: That is correct, and the United States seems at least to be saying to us that it does not want us to interfere with its countervailing procedures either. That is the reason I--

Mr. Gindin: Which means you remain vulnerable.

Mr. Taylor: Or them with ours.

Interjection: That is a two-way street.

Mr. Taylor: Mr. White, now that I have butted in here, I was interested in your argument that the United States does not want free trade because of the number of bills and what it is doing now, which is protectionist in measure.

Mr. White: I did not say the United States did not. Obviously, today there are certain people in the US that do. All I am saying is that the reason I think we are having this discussion is that the US is interfering and raising questions where we have had free trade.

Mr. Taylor: My response is the United States perception of other countries such as Japan. Japan has taken a brutal beating recently in the United States Congress. They look to Japan and say, "You are not trading freely and fairly with us." The US response is, "We are trading fairly with you and look what is happening to our balance of payments." That is not the only reason, of course.

Mr. White: All I can say is Japan's answer to that is not to enter into a free trade agreement with the United States. They are prepared, very cautiously, to lift certain what they call problems in the marketplace, such as the farmers reviewing their position or lumber reviewing its position in the next five years. Their answer is not to have a free trade arrangement.

Mr. Taylor: I am not addressing any bilateral proposals between Japan and the United States. I was not aware there was any in mind, apart from Japan as a nation that is part of the General Agreement on Tariffs and Trade.

The point I am making is that the US reaction of protectionism is because it feels there is an uneven or unlevel playing field at the moment. That is a different situation from unilaterally engaging in protectionist measures--

Mr. White: I have no argument with that.

Mr. Taylor: --where there is even or fair trade.

Mr. White: I agree with that. It is interesting that the administration's response to the Japanese deficit in autos is to allow them to have free trade in autos, which today is one-sided free trade with the United States.

Mr. Taylor: The administration takes a very philosophical position. It is more purist. When you get to the political realm of Congress, it is a lot different.

Mr. White: I think it will be a little less pure as the unemployment situation develops.

Mr. Taylor: Sure, because you will have a political response.

Mr. White: Are you saying politics is not pure?

Interjection: It is economics; it is not pure.

Mr. Taylor: The fact that you would ask that question--

Mr. Ferraro: Are you saying labour relations is?

Mr. White: No, it sure is not.

Mr. Chairman: Sometimes it seems extremely pure in the United States Treasury department.

Mr. McFadden: The auto pact is probably the most significant economic pact with any of our trading partners anywhere in the world that I think of offhand.

What is your feeling about the auto pact? I take it you feel that on balance it was a good arrangement for Canada. Obviously, there are ways we can improve any deal. Is our feeling now that it is a fair deal, that we would not want to unsettle the auto pact in any way?

Mr. White: Let me say I do not think there is any question that on balance the Canada-United States automotive trade agreement benefited both Canada and the United States. It benefited the workers in Canada as well as the workers in the United States, and it really benefited the industry.

Over the years we have had certain problems with it in terms of research and development and the parts deficit. We have continued to raise those and to demand the companies make more commitments to Canada. However, on balance I think it has worked reasonably well. We are running quite a large surplus currently. When the Americans raise that with me, I say, "Let us go back to 1965 and look at all those 12 years when we carried an enormous deficit."

I think on balance it is working well. In all the times we have argued about the problems of the Canada-United States automotive trade agreement, we have never once suggested it should be renegotiated. We know that when you open that for negotiation, somebody else brings another piece to the table.

Mr. McFadden: Perhaps in any discussion with the United States we can leave the auto pact out of it. I did not detect when we were down there that anybody wanted to reopen the auto pact; there probably are people who say they would like to. However, if

we can put the auto pact to one side, in your view and based on your research, are there other sectors that could benefit from some form of individual trade agreements?

What I am getting at is the auto sector really benefited when the Canadian and American governments sat down, put all the cards on the table and negotiated a deal. There were years when the Americans may have benefited more from the deal than we did. We happen to be on the upside today, but one expects that in an arrangement. One side should not always benefit and the other side should not always be in a deficit. There should be a trade. I think, on balance, it has been a fair arrangement.

Confronted as we are now with our dependence on the United States, are there in your view any productive sectors where we might look at some form of special arrangements which might protect our position and which might also over the longer run open up opportunities as the auto pact did for us?

Mr. White: I do not know what those sectors would be. I want to go back to your first question. I do not think you are talking about free trade with the United States if the United States in the end result will allow you to set aside the largest piece of trade it has with Canada which has some basic protections for Canada. That may be the case today as we open these discussions while people have reasonably full employment, but in my judgement that will not be the case when we get into total discussions with the United States.

I do not know of any other sectors that do not have access to the US market that you can give access to with some kind of different arrangement. You have to remember the auto pact is there because the corporations wanted the auto pact as well. It was not just the two countries.

Mr. Gindin: I just want to re-emphasize that. One of the differences today is that as tariffs are lowered, there is no interest in an auto pact in the sense that you have virtually free flow anyway. All the auto pact then means for the US is that we are going to have safeguards. There is no interest in the United States just saying we should have safeguards. The auto pact was of interest in the mid-1960s because we had very high tariffs and therefore had certain structures in Canada. Corporations were willing to accept safeguards in exchange for lower tariffs so they could rationalize production on a North American basis.

One of the interesting things about the safeguards is that they have been willing to accept safeguards in international trade relations. They would live with that. No one has taken advantage of it.

Mr. White: The importance of that is we had US-based corporations which were taking a different position on trade in Canada with Japan in the auto industry than they were in the United States because we had already accepted that principle in Canada. I do not think that should be minimized.

Mr. McFadden: Related to the auto industry are the urban transit vehicles. That is one sector where for the Americans that

is an irritant area clearly. It is an area in which we enjoy a competitive advantage, although probably not in all vehicles.

Mr. White: It is also an area where there are a lot of buy America programs too.

Mr. McFadden: That is one area where the nontariff barrier is starting to come up against us right now. When you talk about irritant areas related to the auto industry, would you include urban transit vehicles in the sectors that should be dealt with as irritants?

Mr. White: Yes, but I remember talking to some people from Can-Car who were putting a large program in Detroit and the state of Michigan was requiring a certain amount of content. I understood that argument. How can you argue against that? I do not know how big an irritant that is. I do not think we should just be sloughed off by the United States by saying that we have an unfair position in the transport industry when there are a great many cities in the United States with buy America programs.

Mr. Gindin: Quebec used a produce in Quebec program to get the General Motors bus plant.

Mr. McFadden: Ontario does too. I just raise that industry because with Bombardier and the Urban Transportation Development Corp., it certainly is an industry which is Canadian owned.

Mr. Taylor: But then you are really getting involved in the overall issue of government procurement, which is pretty broad and might be a legitimate area of discussion. There are some pretty massive figures there.

Mr. Ginden: We represent workers in the public transit industry too. One of our concerns has been that there has not been enough use of government procurement policies in the aerospace industry, for example.

Mr. McFadden: On whose side?

Mr. Gindin: On our side. We have one of the largest aerospace fleets in the world, yet if you look at how the decisions are made with respect to building an aerospace industry in Canada--

Mr. White: When Japan decided to start purchasing Boeing aircraft, it did not just buy them from Seattle. It said there was going to be a certain amount of Japanese content in that. There was going to be a sort of a tradeoff. You do not have Air Canada making that decision.

Mr. McFadden: What part of the plane that crashed was made in Japan?

11:40 a.m.

Mr. White: I do not know.

Mr. Chairman: That is the sort of thing you would be cautious about putting on the bargaining table.

Mr. Mackenzie: One of the things we get thrown at us as well is something of a procedural argument. It is suggested that we just cannot continue to deal with the irritants or problems one by one and therefore should be entering into the umbrella agreement. I am wondering whether you have any further comments on that.

Mr. White: I do not think it makes sense to suggest that you cannot deal with the irritants one by one but that you are going to go into several years of negotiation and somehow deal with the whole picture. There will be more irritants unless the United States trade deficit drops dramatically, and we will have to deal with those.

Mr. Ferraro: Mr. White, I understand and appreciate most of your comments and I think I know where you are coming from. There is one issue with which I am having difficulty, and I will ask you if you can try to clarify it for me. You say and admit that the auto pact has been honoured by both sides for various reasons. Yet you say that if we were, hypothetically speaking at this juncture, to arrange a free trade treaty with the United States, it would not be honoured because various factors would come into play.

It almost begs the question, and I look to your response, but have there been treaty arrangements that the United States has made that it did not honour? Maybe this is the leap of faith they are talking about.

Mr. White: The current Canada-US automotive trade agreement has some basic protections for Canada that are there because the corporations were willing to put them in to get around high duties.

In my judgement, if you enter into free trade discussions with the United States, the United States has the absolute right to throw the auto agreement into those discussions and that means you get rid of the protections. I think they will say to us that they want to do that. If you are going to play from a level playing field, you no longer need protections in the auto trade agreement if we are going to have free trade.

If you start down that road, you will put into serious jeopardy at certain times auto facilities in this country because people will add second shifts rather than make commitments which at one time were made to get around duties.

There is an order in council that kept the American Motors facility in Brampton at 60 per cent Canadian content. As a result, we not only have that old facility, we have an investment of \$750 million from Renault to put in a state-of-the-art assembly plant. Had we not had the auto trade agreement with some basic protections for Canada and an order in council requiring a 60 per cent level of Canadian commitment in the firm's vehicle production, that Brampton plant would have been closed.

Mr. Ferraro: You are saying that in isolation and by sector we can have agreements and protect them. You do not think in a massive free trade arrangement we could have the same protections to protect such sectors as the automotive sector.

Mr. White: If you were opening discussions in the auto industry today, you could not negotiate the Canada-US automotive trade agreement because the same scenario does not prevail. You do not have the high duty and you have foreign producers producing here. You could not get the United States or the auto industry to agree to that agreement today.

Mr. Gindin: They might give you temporary safeguards to get you under an agreement, but you would not get permanent safeguards.

Mr. Taylor: That does not mean the agreement is necessarily secure today either.

Mr. White: Exactly. Regardless of which way it goes, you are absolutely right.

Mr. Gindin: It is a lot more secure than if we said we would negotiate a new agreement.

Mr. Chairman: There is no doubt about that, and you may say this is a naïve assumption too, but supposing we convinced them to exempt the auto pact--

Mr. White: I would not feel any better about a free trade agreement. I see this from a much broader base than what happens to the auto industry or UAW members in the auto industry. If we were to look at this from a narrow perspective, we would be going to Ottawa and saying, "Go ahead, but make sure you protect the auto industry." I see this as a much broader political and economic issue for Canada.

Mr. Haggerty: Mr. White, on page 9 you mentioned surrendering our water rights if we still have them. Is there any other area that you have considered in the free trade agreement with the United States?

Mr. White: I had not really thought about others. Again, I think it is fair to say that it is not overly dramatized. We have to talk about a number of important political decisions that we have to make.

Mr. Haggerty: I was reading an article in the Globe and Mail this morning which said that the Premier of British Columbia was visiting California to try to make long-term arrangements for energy sales, the renewable resource of water included. In meetings I have been to in the last couple of months, there has been a big push by the provinces, particularly the western provinces, in support of free trade.

They want to get rid of the energy resources out there and get rid of them fast. They want to make a buck now and they do not care how. They will worry about that later on. That is what their thrust seems to be.

Mr. White: That is why we cannot come at this from an Ontario perspective. I think Ontario could help lead a national debate. I think there are a number of people in the western provinces that are concerned about the directions some of those provinces are prepared to take on this issue.

Mr. Haggerty: Does your group feel we should be looking at breaking down some of the trade barriers between provinces first? For example, there is the national energy grid we talked about where we would have power generating stations in Ontario which would tie into an east-west grid, or a pipeline across Canada so we could tap into our oil fields off the coast of Newfoundland and the gas and oil fields in Alberta.

Mr. White: No, we have not looked at it. What I am articulating today is the position of the Canadian Labour Congress, which includes people like Jack Munro, who heads up the woodworkers' union which is subject to the discussions on stumpage fees and access, etc. It is important to remember that while some people would dismiss the Canadian Labour Congress, it is a national voice and it represents people from all regions of the country, including the western provinces, the presidents of federations, people from the energy and chemical unions, the woodworkers' unions on the west coast and fishery unions. Those people are of one voice in saying that this is not a good avenue for us to travel.

Mr. Haggerty: I just wondered whether your group had done any research in that area because jobs can be created there.

Mr. White: No, we have not.

Mr. Haggerty: I always say let us bring Canada together first and we will worry about the exports later on. The market will always be there for the export of energy, particularly oil and gas, to the United States or any country throughout the world. Perhaps we should cement our sovereignty in the Northwest Territories and the eastern Arctic also.

Mr. Chairman: In dealing with the issue of interprovincial tariffs and nontariff barriers, there are arguments, I suppose, that can be made on behalf of those barriers by smaller provinces, such as the land ownership problem in Prince Edward Island or the unemployment problem in Newfoundland. I gather there is a bit of a consensus in this committee that we have to look more seriously at these barriers than we have in the past, but when we talk about it that is somewhat in contradiction to the suggestion in your brief that we should be very careful about our sovereignty nationally in looking at the United States.

Mr. White: I think we have made certain decisions in this country for regional reasons. When we put all those in a discussion, they should not necessarily go away. British Columbia will argue that it has an enormous deficit in trade because of trade barriers with Ontario, for example.

11:50 a.m.

All I am saying is that the political process in Canada at least allows you to discuss those from a national perspective within a sovereign country. You can live with those. You get to what is the art of the possible and how important those still are to certain regions in the country. Many of them are very important.

Mr. Chairman: That begs the question of how far we are going to get. Are there any other questions?

Mr. White: Thank you very much.

Mr. Chairman: Thank you very much. We appreciate having you here. We will look forward to reading your report.

Mr. Mackenzie: I may have heard members of the committee incorrectly. I was a little disturbed by what I thought was a reflection that what the federal government does may have some bearing on how we report in this committee. If I was wrong earlier in the conversation, I apologize and there is no need to worry. However, I do not think that whatever decision is made by the federal government tomorrow should in any way direct what this committee has to say regarding its report.

Mr. Taylor: I sensed a message from the chair that would indicate our posture might be premised on the federal announcement. I was sensitive to that message as well. It struck me that the committee should exercise--and I am sure it will--full independence of mind and judgement in connection with this report.

Mr. Ferraro: Absolutely, otherwise we might as well go home.

Mr. McFadden: I assume we have to respond to what the federal report might say and what it might do to the environment, once it comes out.

Mr. Chairman: We are going to be releasing a report in October. If this country is in the middle of some discussion at that time, I see nothing wrong with this committee being aware of it. Otherwise, we are talking in a vacuum.

Mr. Mackenzie: When I heard your comments, I was worried that we might have to react differently, depending on which decision is made tomorrow. That certainly is not my feeling.

Mr. Chairman: I may be anticipating something that will never occur. However, I stand by my thinking, that whatever we say has to be current. That is all I was going to say.

Mr. Haggerty: We should have a detailed review of this whole matter of free trade.

Mr. McFadden: Mr. Chairman, I agree entirely with your observation of how we are to react to what is going on. I think it is going to create difficulty for us because we are not dealing on a strictly level playing field. New things are being created here. I have a feeling it is going to force us to raise a lot of

questions in order to carry on our research. I suppose we will end up talking about trade arrangements, what we can do in response to protection, as they do in the United States, and how to develop the markets, if the federal government says it is not going to have any discussions,

Who knows what the federal government might decide to put into negotiations, if it goes ahead with them. They could be comprehensive or they could--

Mr. Ferraro: I think the federal government will have discussions.

Mr. Chairman: I suppose we can still say the field is open for us to comment on virtually anything.

Mr. McFadden: This is the general point. I think in that case we are going to have to figure out how we respond.

Mr. Ferraro: Why do we have to respond?

Mr. McFadden: We have to acknowledge it in whatever we say, whether the discussions start or do not. I do not know how we cannot even allude to the fact that any discussions are taking place. I think that is what the chairman said. He said you cannot make believe those things are happening. We have to enter into it.

The question is, how do we do it? If it is as general as you are suggesting, then there may not be much to say, except about the discussions.

Mr. Ferraro: If he comes in and says negotiations are going to start tomorrow, he has nine million people in Ontario to contend with.

Mr. Mackenzie: It will certainly be argued. However, I do not think it will be that clear.

Mr. Haggerty: He does not have a consensus from all the Premiers.

Mr. Chairman: I am saying that I do not think we can approach it in a vacuum.

Mr. Ferraro: I totally agree with you, Mr. Chairman.

Mr. Chairman: We would be expected to respond to that.

Mr. Ferraro: I just had the same concerns expressed by the other members that it should not deter us from our course. We have to consider it.

Mr. McFadden: Nothing can deter us from our course.

Mr. Chairman: I may be guilty today of being generally clumsy in communicating. I want to state something else on the record as well. On page 5 of this morning's Globe and Mail, there is a quote from myself that was not taken in the complete context of what I said.

Mr. Ferraro: Are you saying reporters make mistakes?

Mr. Chairman: I simply wish to put on the record what I perceived when I was in Washington, that we have many friends in Congress, as we have in the administration. There was no one in the Senate pointed out to us as someone who would go to bat for Canada during the course of these negotiations or during the course of various bills which might be before the Senate. No one in the Senate was pointed out as someone who would particularly go to bat for us. I thought I had made that particularly clear.

Also, in talking about terminology, I was talking about the term "free trade," which is a positive term; at least I picture it as a positive term in the context of the American political scene, whereas in Canada we are talking more about enhanced trade.

Mr. Haggerty: Let the record stand.

The committee recessed at 11:57 a.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

TUESDAY, SEPTEMBER 17, 1985

Afternoon sitting



SELECT COMMITTEE ON ECONOMIC AFFAIRS

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Substitutions:

Haggerty, R. (Erie L) for Mr. Cordiano  
Hennessy, M. (Fort William PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From Polysar Ltd.:

Bentley, G. F., Group Vice-President, Basic Petrochemicals Division  
Finn, G. J., Manager, Government Relations

Smart, J. D., General Sales Manager, Slater Steels Corp., Slacan  
Division

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Tuesday, September 17, 1985

The committee resumed at 2:08 p.m. in room 151.

ONTARIO TRADE REVIEW  
(Continued)

Mr. Chairman: Today we have with us G. F. Bentley and G. J. Finn, from Polysar Ltd. Mr. Bentley is the group vice-president, basic petrochemicals division, and Mr. Finn is the manager, government relations.

I understand you wish to give us a few hints on the inside of your industry and then you will be available to answer some questions.

POLYSAR LTD.

Mr. Bentley: It is a pleasure for us to be here. We submitted a written brief and we do not propose to repeat all of that today. Mr. Finn is going to present some background on the petrochemical industry and then say something about our company. Then we have taken what we believe are the pertinent points from our written brief. Of course, we are prepared to answer questions. I do not know how you would like to proceed. If you would feel more comfortable asking questions while we are presenting it, that is fine. If you want to wait until we are finished, it is up to you.

Mr. Chairman: A few weeks back, I used to warn witnesses that we intended to interrupt. However, I think we have become a little more lethargic lately and you can probably get through your brief.

Miss Stephenson: I hope we have become more courteous.

Mr. Taylor: The chairman calls it "lethargy," but we call it "civilized."

Mr. Chairman: We are a little more civilized.

Mr. Finn: We are pleased to appear in front of your committee today and we welcome the opportunity to provide you with some factual information on the petrochemical industry. We would like to spend 15 minutes or so outlining some aspects of the industry to give you a bit of perspective on it.

The Canadian petrochemical industry had sales in 1984 of slightly more than \$6 billion. It does this mainly by converting Canada's resource strengths into tangible economic benefits for the nation. Approximately four per cent of domestic crude oil and close to 30 per cent of natural gas consumption were upgraded into

a wide range of products that virtually all flow into other manufacturing processes at home or abroad before reaching final consumers. These end products range from automotive components and pharmaceuticals to clothing, construction materials, pesticides, paints and cosmetics.

The industry has more than 70 manufacturing plants; 35 per cent of the Canadian capacity, however, is in Ontario. It is one of the most capital-intensive sectors of the economy. In 1984, the gross investment was approaching \$600,000 per employee. Nevertheless, the industry has still managed to create more than 6,000 jobs in the last 10 years. It directly employs 18,000 people and helps to generate and sustain about 50,000 jobs in many upstream supply and support industries and a further 125,000 jobs with downstream processors. Well over half of these processors are in Ontario.

During the 1950s and 1960s, Canada's petrochemical production, in common with much of this country's industrial output, originated in relatively small plants primarily serving the domestic market. This was a difficult posture to sustain in a world environment in which economic petrochemical plant sizes were increasing rapidly. For example, the typical world-scale ethylene plant--ethylene is the basic petrochemical--increased from a capacity of about 100 million pounds per year in the mid-1950s to one billion to 1.2 billion pounds per year by the early 1970s, with a consequent halving of production costs.

Reflecting this intensified foreign competition, investment in Canadian petrochemical facilities stagnated and production rose about half as fast as domestic consumption during 1965 to 1974. Trade during this period moved from a relatively balanced position to a deficit of \$450 million in the latter year.

Beginning in the early 1970s, the petrochemical industry committed itself to investing in world-scale plants and was able to advance to a point where it could compete against other major petrochemical nations. Because of the relatively small size of the domestic market, the search for markets abroad became critical. The volume of petrochemical exports increased nearly sixfold between 1974 and 1983, and Canada has enjoyed a trade surplus in these products in every year since 1979. Today nearly 30 per cent of industry sales are made in export markets and over 60 per cent of these are made to the US.

Canada has been recognized as an energy-rich country and, therefore, a potentially strong participant in the international marketplace for petrochemicals. However, its competitive strength comes from a balanced variety of factors, as compared to other energy-rich countries of the world where feedstocks are available at extremely low costs.

The fundamental strengths that are helping position the Canadian petrochemical industry in the international market, beyond the fact that it has significant energy resources in excess of its domestic needs, are the following: (1) a highly skilled, efficient work force with supporting educational institutions and in-house training programs; (2) modern, efficient production

facilities with more than 60 per cent of the investment in the industry having been made within the last six years; (3) the availability of effective distribution systems and proven international marketing skills; (4) recognition internationally as a dependable, secure and diversified source of supplies to other countries, based on a stable and reliable business environment, as well as historical political stability and an advanced overall infrastructure; and (5) availability of a strong domestic base of operation arising from the existence of a substantial sophisticated market for petrochemical products within Canada.

We will provide some specifics on Polysar. Polysar Ltd. was established in 1942 as part of the wartime effort and has grown to be the world's largest manufacturer of synthetic rubber and latex. In fact, Polysar introduced synthetic rubber to the world at large immediately after the war, when it was apparent export markets were essential for the company's survival.

The limited size of the Canadian domestic market and the post-war resurgence in natural rubber required us to develop overseas markets for a number of our products in order to maximize the efficiency of our production facilities. This, in turn, led to a new research and development centre and more production facilities to serve these burgeoning demands throughout the 1950s.

By the 1960s we were facing much stiffer competition from other producers overseas, and this caused us to establish production facilities in strategic areas such as France and Belgium. At the same time, we were opening sales and technical offices close to many of our markets. This process has continued with several acquisitions until today where we have manufacturing plants and offices in 15 countries.

We have acquired extensive experience in entering new markets around the world and have been able to do so on a competitive basis by adhering to the major factors mentioned earlier. For example, we were the first North American rubber producer to enter the European markets and helped to create a demand by providing customers with technical knowhow. We have been selling synthetic rubber to China since 1959 and have spent considerable time helping to train Chinese nationals both here and at home. We have recently entered into a joint venture with China to provide them with Polysar's advanced technology in latex, and they will give us broader access to their domestic market. This will inevitably lead to other production and marketing opportunities.

Our world headquarters are in Sarnia, and about 44 per cent, which is 3,000 people, of Polysar's global employment is in this area. We have invested \$1 billion in the Sarnia area in the past decade and we have just announced another \$100-million project to ensure the continuing competitiveness of Polysar's Canadian operations. Our Canadian production serves well established markets in 45 foreign countries.

Polysar fully supports the concept of free trade and, therefore, trade liberalization, providing domestic conditions concerning federal policies on energy, taxation, research, etc., are supportive of the company's efforts to increase its manufacturing capability and competitiveness and thereby enlarge its exports both directly and through domestic customers.

To be competitive in the United States or anywhere in the world, Ontario companies must adhere to the basic thrust of the major factors identified earlier. Polysar is fortunate to be well positioned with respect to all of these. We recognize, however, that other sectors, possibly including some of our own downstream customers, may face different trade prospects and will require a transition period to adjust to the world environment.

On the next few pages we have extracted a few highlights from the official position we had submitted on trade policy to this committee a month or so ago. I will highlight a few pieces from that.

Enhanced access to all world markets would provide many advantages to Canadian companies, including larger markets, increased sales, lower unit production costs, increased capacity utilization and high profits. It would stimulate domestic firms to become more efficient, specialized, innovative and internationally competitive. However, there is a continuing and increasing risk that Canada's access to international markets would be severely impeded by the proliferation of nontariff barriers within the world trading system. To combat this trend, Canada must seek to preserve and enhance the multinational trading systems embodied in the General Agreement on Tariffs and Trade.

The federal government should work in concert with other nations in favour of a new round of multilateral trade negotiations which could begin in 1986. The new round will serve generally to strengthen the multilateral trading system and specifically to further Canadian interests with our principal trading partners by providing a framework for reducing and/or eliminating tariffs, resuming efforts to come to grips with the trade effects of nontariff measures, improving and developing international trade disciplines and developing international rules in new areas such as trade and services.

It would be a mistake to rely solely on GATT, however. Polysar believes there is scope, as well as a pressing need, to move immediately towards liberalizing trade with the United States, which is overwhelmingly our most important export market and where there are threats of broad protectionist measures. This action can be, and should be, consistent with our commitments to GATT.

2:20 p.m.

As a first step, the Canadian government should negotiate a formal consultative framework with the United States, such as a trade enhancement agreement. With this framework agreement in place, it will then be possible to begin reviewing the

implications of a comprehensive agreement to remove all barriers to Canada-US trade. This will need to be done for all sectors and should include a thorough study of the industrial policy environment required for each industry to adjust and develop.

The remaining consideration is for specific opportunities of an urgent nature, which should not await the conclusion of the first two elements. The petrochemical industry provides such an opportunity.

Securing access to US markets is a matter of tremendous urgency for the Canadian petrochemical industry. The industry has taken a number of steps towards the goal, but further progress towards liberalized Canada-US trade in petrochemicals will not be possible without a clear, positive signal from Canadian governments.

Now we would be pleased to answer any questions you have on our brief or on Polysar Ltd.

Mr. Taylor: In this committee, we have heard from certain segments of society, in particular the labour unions, that Canada should not be overly concerned with the need to be internationally competitive, that we should concentrate on building our nation to be more self-sufficient, and that we should do this through measures such as import replacement and a government industrial strategy which would support the strengthening of our infrastructure and industrial manufacturing base. I would like your response to this position.

There seems to be a cleavage developing. As a province and as a country, do we have to be cognizant--I am hesitating to draw a conclusion; I may reflect my bias--of a global marketplace and the need to trade in order to maintain, if not enhance, our present standard of living? It is a large question, but I put it to you in the context of the story you have unfolded today, which is one of a modern industry you have expanded at great expense to meet global competition.

In order to be competitive, you have had to engage in the world marketplace because your share of the domestic market was shrinking. That may be a lesson for other industries. I ask for some response.

Mr. Bentley: I would like to reply and maybe ramble a little. Polysar is one of the few truly international Canadian companies. I have had the pleasure of working overseas for a good many years. I spent eight years running our offshore operations in Brussels. Going back, if Polysar had not expanded into the international marketplace in the late 1940s and early 1950s, it would not exist today. The domestic Canadian market for synthetic rubber was not large enough to sustain an industry of this nature. Therefore, it was forced to go international. That was very fortunate because we have been able to build from the base that was established in the late 1940s and early 1950s.

Also, this industry, as we said in our brief, originally built small plants which could serve small markets. In the petrochemical industry today, you have to build world-scale plants; otherwise, you cannot possibly be competitive. We have world-scale plants. The majority of our assets are in Canada, but we have plants in France, Belgium, Germany and Mexico. Those plants serve world markets, not just a small market.

We are an energy-rich, hydrocarbon-rich country and we are viewed as that in the world at large. We want to upgrade our resources. The petrochemical industry is one industry that has done that. I believe that if Canadian business people are almost forced to go more into the world market, they will learn how to develop those markets and in the longer term we will be much better off and will have a much stronger Canadian economy and a much larger place to play in the world economy.

Mr. Taylor: The other question I would like to put to you is a response in regard to the present problems in trading with the United States. Do you see those problems becoming more severe and do you see the need for some action now?

Mr. Bentley: We are in a very fortunate situation if the remaining trade barriers were removed. We do not have large barriers. We would not benefit as a corporation and would probably end up with an additional profit of only about \$5 million. However, if we get into a constricting situation and we permit the Americans--they seem to be heading towards countervail and those kinds of actions. If they impose legislation setting up barriers, we would be hurt. For example, if our industry were fenced back into Canada, we would not and could not survive.

Mr. Taylor: I put that to you because an argument has been made, and I think it was made as recently as this morning by Bob White of the United Auto Workers-Canada, about maintaining what has been termed a status quo position, one of reacting and responding to problems as they arise, whether it be with steel, fish, raspberries, hogs or lumber, one of participating and reacting on that basis.

Personally, I have some concern about that, if only because there really is no status quo. Everything is so dynamic today that we keep dealing with a changing subject matter. I would like your response in regard to your industry and the posture you feel is most appropriate. Is it to carry on business as usual and then respond, or do you feel it is important to take some initiative now? I put that to you because the message I am getting from some quarters is that, although everything is not all right, it is going reasonably well, so why respond or react when you are probably putting everything up for grabs and perhaps participating in a net loss to Ontario and Canada?

2:30 p.m.

Mr. Bentley: When you spend a good deal of time in the international marketplace I assure you that if, for example, you are in China, there are a lot of Americans, Germans, Japanese, English people and French; they are all there. If we are going to

compete, we have to be there. I think that is something Canadian business people have not realized. They must be out there in that market to compete in order to grow. The world is a dynamic place and is changing very quickly. If we stand on the sidelines, then we are not going to participate in my opinion.

Mr. Taylor: Maybe my question was too broad and it prompted that broad response from you, but again about Canada vis-a-vis the United States, the relationship of your industry in terms of the US market, do you feel you can adequately carry on business as usual without any response, or do you feel that there should be some initiative on the part of government?

Mr. Bentley: We feel there should be initiative on the part of government, clearly.

Mr. Finn: If I could just say something on that subject as well. We would not be telling you anything new by saying that there are now 300 or 400 pieces of legislation or proposed bills being talked about in the United States, all of which are aimed at correcting the trade imbalance in which the US finds itself.

There are a number of those, I suppose you could say several dozen, that would have an impact on us. There is talk about a general surcharge and then a number of specific surcharges on imports coming into the United States levelled against countries that have a positive trade balance with the United States or that do a certain volume of business with the United States. It is a very difficult way to run a business, always wondering if you are going to beat that particular bill or not, if it is electioneering or whatever it is described as. It is a very difficult environment in which to conduct business.

I think the sensible way to do that would be to have some overall arrangement with the United States.

Mr. Taylor: That would be my view, if I can confess that view here without prejudice, Mr. Chairman. That would be my view. You should not be in a position of running a crisis centre and continually reacting. But there is the view that all of this legislation--I have heard the estimate is somewhere between 200 and 400 bills in Congress that are protectionist in nature--may result in what has been termed by at least one economist as Canada being sideswiped in that process.

With that environment, the criticism is "Canada, Ontario, you are just being intimidated. Why are you reacting to an environment of intimidation, an atmosphere of fear?" I am not easily scared, but it would strike me that I should be concerned. I do not know your view.

Mr. Finn: I think eventually if you have say 200 to 400 proposed bills that could have an impact on you, the chances are that over time some of them are going to come into law in some form or another. There is always the possibility, the way the system is in the United States, that something will be tagged on to a bill.

We keep hearing that Congress may pass this, the House might or the Senate might, but when it gets to the President, whose nature is free trade, he will veto it. You cannot operate a business while waiting for the President to veto it. That is not a good environment in which to operate. There is always the danger that the mood of the administration will be to veto such a thing but to give up a piece of a few of those bills and tag them on to some other legislation. I think really the only predictable way, and the best way, would be to have an overall environment or arrangement between the two countries.

Mr. Taylor: I might add a postscript here and then I will let someone else get involved in the questioning.

I have some concern with the growing numbers of sponsors--that is the growing sponsorship by the individual members of Congress, whether it is the House of Representatives or the Senate--might in itself gather sufficient momentum that at some point the President is not going to be in a position to veto. If he does, there is a solution to that as well, as you know.

Mr. Bentley: Just to add a little bit to that, the United States is our largest single market, but on an even basis we compete very effectively in that market with companies much larger than we are. You hear that Canadians are fearful about competing in a world market. I believe that is not true. Our company is a clear demonstration that on an equal basis we can compete very effectively around the world. Our people, our technology and our infrastructure can support a truly world-class industry.

Mr. Taylor: I promised to stop, but I have one concluding question. We have heard there are no hard facts. Where are these industries that are going to generate more jobs? Are we going to lose more jobs in the process? I guess that is what it comes down to. Certainly it is political. There is some broad opinion, and a correct opinion, that is concerned about employment.

Would you say then that yours is one industry that would shrink with respect to employment if it suffered from more protectionist legislation from the United States and, presumably, from other countries?

Mr. Bentley: Yes, it is clear we would suffer rather substantially. That is not only our company; it is the petrochemical industry.

Mr. Mackenzie: Going back to one of the comments that the member for Prince Edward-Lennox (Mr. Taylor) made, you were discussing your experiences on the international scene, that you have to be there in China or some of these areas to make your mark or get the business today. I am interested in what connection that has with us having a free trade treaty with the United States.

What prevents you now? You are obviously doing fairly well from the summaries you have given us to date. What prevents you from competing in those markets now? What has a bilateral free trade arrangement with the US got to do with your company moving

in to world markets?

Mr. Bentley: As I said earlier in my comments, specifically with respect the United States, it is our largest market. I believe the world will not stand still. If we do not move forward on freeing up trade, not only with the United States and through GATT, restrictive barriers will come up. That would be really disastrous for our industry.

Mr. Mackenzie: So it is barriers that may come up from other nations. Whether or not we enter into a free trade deal with the United States has no direct relation to your ability to compete or go after business in China or some other country at the moment.

Mr. Bentley: No, but if we are not seen as a nation that is in favour of free trade we will not be as welcome in the trading markets. I have heard many people saying Canada does not want foreign investment, because of the difficulties it has put in place of investing in our country. They look at those broad issues and look at whether the country is really open to trade or is closed to trade.

Mr. Mackenzie: Are you referring to something such as the Foreign Investment Review Agency?

Mr. Bentley: Yes, something such as that.

Mr. Mackenzie: We have our own people telling us that that really was a bogymen or a false issue.

Mr. Bentley: I am only expressing a view that I heard from some foreign business people. I have not actually thought of it.

Mr. Mackenzie: It is a view that is not necessarily accurate, unfortunately.

Mr. Bentley: No, it could well be.

Mr. Finn: It is an impression that is created. The same is the situation when Mr. Bentley says that moving into China is something that is important to us. That is really the orientation of the company. It would be difficult to say that in one market we would be interested in free trade and in the other market we would be interested in barriers. Generally our orientation is that you need to be aggressive, you need to operate in a competitive world market whether it be the US, China or anywhere.

2:40 p.m.

Mr. Mackenzie: I would think there is much more room to manoeuvre with respect to multilateral GATT negotiations in that area than there is in specifying one country with which we want to enter into a free trade deal. I am not sure what that would do for your business in China or any other nation.

Miss Stephenson: In defence of the company, their

statement very clearly was that we should not do one or the other; we should attempt to do both.

Mr. Mackenzie: You also stated there is very little in the way of barriers to your industry at the moment. In effect, you are currently operating in a free trade environment.

Mr. Bentley: No, there are some, but it is not a major factor. I am not speaking for the petrochemical industry; I am speaking for our company. It is not a major problem at this time. However, we do such things as--

Mr. Mackenzie: I know the fear. Unfortunately, that is the basis on which a number of people, including our own government, seem to be approaching it.

You have presented what amounts to a success story in your industry. At least some people recognize you have done reasonably well. Certainly you have done very well given the current environment. That literally is a free trade environment as far as your company goes.

What, then, have you to gain, apart from the fear of protectionist legislation? Can you tell us--and I hope you can because this is the one thing that has been lacking--to what extent there will be additional investment or how many additional jobs we can expect to see, given any particular time frame, if we now enter into free trade talks with the United States?

Mr. Bentley: Unfortunately, I cannot.

Mr. Mackenzie: You have quite a success story here as it is. I am just wondering what the addition is we are going to pick up.

Mr. Bentley: The only thing I can assure you is that, if there are restrictive measures--and I know that is fear of the future, as you say--there are a number of jobs that will disappear.

As a company we spend \$40 million to \$50 million on technology. We are in the process of expanding our technology base in Sarnia.

Mr. Mackenzie: Even given the current situation?

Mr. Bentley: No, but given a world market in which we are free to move we are building on that technology base in this country. Those are new jobs.

We believe, as we said in our brief, we must have a free trade environment in order to flourish.

Mr. Mackenzie: Which is what you currently have. What you fear, then, is what might come down the pipe in the way of restrictions.

Mr. Bentley: I think our position is stated clearly in the brief.

Mr. Chairman: Free trade would be of some assistance in opening GATT negotiations, too, though.

Mr. Bentley: Yes.

Mr. Chairman: You would benefit from that.

Mr. Bentley: We have tied the two together. We believe we cannot do one thing or the other. We have to enter fully into the spirit of GATT and also we can have bilateral arrangements within GATT.

Mr. Mackenzie: One more question and I think I am finished. Yours is one of the industries that is doing very well in the current situation. You tell us there could be a job loss. If you can expand even further in the world market, there may be some additional employment, but you cannot give us a hard figure on that kind of additional investment or jobs.

Mr. Bentley: I think we have done very well.

Mr. Mackenzie: I would say you have. You have done it in the present circumstances. It is the best story we have heard yet. What I am asking is, what do you think would happen if we enter into comprehensive trade negotiations with the United States? It is not going to go all our way. That has been made very clear to us. What would you be prepared to see traded off?

Mr. Bentley: I do not think I am competent to answer that.

Mr. Mackenzie: For example, should we allow them to open such subjects as unemployment insurance payments to east coast fishermen? Are we concerned about the stumpage fees that are a great protection to the lumber industry? Do we let them negotiate with us if they are not prepared to put the countervailing arrangements on the table?

Nobody takes the Americans for fools. I certainly do not. They are not going to go into it without something to gain. You have done very well. How much more you can gain I do not know. You are still not putting a figure on it. I am not talking now about the fear of legislation coming down the road, but an awful lot of industries are very concerned.

We have had a lot more of the downside related to us, some of it fairly specifically, than we have the upside. I wonder what you would be prepared to put on the table. For example, in the automobile industry, which is the real cornerstone of our trade with the United States right now, would the auto pact be one of the things that would have to be up for negotiation?

Mr. Bentley: I am sorry. I am not competent to comment on other people's industries. It would not be fair of me to do so and I do not feel competent to do so.

Mr. Mackenzie: Our concern as politicians--and there will be differences of opinions within this committee--is that it

is a tit for tat sort of a deal. If we are going to enter into it, we are going to have to do some trading off. Which industries need it to survive? Is it a valid argument?

I can see that you would like to have the legislation, but you have already done extremely well. I am not sure how much it is necessary given your current competitive position. There are other industries that would be in serious trouble.

Mr. Bentley: We have said in our brief that there would have to be an adjustment for other industries. Maybe this is biased by our own situation but we believe a freer trade situation would benefit most industries in our country in the longer term.

Mr. Knight: The first question has been answered. Correct me if I have not read your submission as such. A number of industries have appeared before us and have indicated their real reason for wanting to encourage the federal government to open up trade talks with the United States is their fear of protectionism.

In a lot of cases they have been operating quite well under the present system and they do not see too much in the way of increased growth under a further liberalization. You, yourself, are operating under free trade at present. Their reason and, I sense, your reason for encouraging the federal government is more reactive than proactive.

That is one of the concerns we found when we were down in the United States last week talking to congressional people. The perception was that an awful lot of them would look at an overture from the Canadian government as an attempt to forestall some of their protectionist legislation. If they do perceive that, they may very well not be willing to approve of any such trade deal. I gather your encouragement was more a reaction to the fear of a loss of markets in the event of protectionist measures by the US.

Mr. Bentley: That perception is correct in itself, but we have clearly stated in our brief that the management of our company believes that free bilateral trade with some adjustment period would clearly be better for our industries. We are not only here on the basis of reaction, although that is the immediate concern. We believe we have been successful in operating internationally and that more Canadian companies can do that in a freer trade environment.

Mr. Knight: I am not sure what barriers there are for your industry in the United States. Could you comment on the state of the US industry and its trade with Canada and what would happen if there was liberalization of trade? What would that do to your industry? Looking at the complete picture, not only at what would happen to you, what would happen to the North American market?

2:50 p.m.

Mr. Bentley: As you have said, there are not many restrictions on our industry now. We believe as Canadians that Canada is a hydrocarbon-rich and energy-rich country and the United States is not. We believe Canada would have the advantage

in our industry. It is a matter of upgrading our resource base. The more upgrading you can do of your product, the more value added you receive and the better the wealth of our country.

Mr. Chairman: I was discussing with Mr. Traficante something on which you may be able to enlighten us a little bit. Do you have any knowledge of the sectoral negotiations that occurred in 1982-83? The petrochemical industry may have been front and centre at that time.

Mr. Bentley: I do not have first-hand knowledge. I do not think it was though. I am not sure.

Mr. Chairman: There are no particular tariffs you are aware of the United States having that we are concerned about? Or that perhaps the Alberta industry is suffering from more than us?

Mr. Bentley: There are some, yes.

Mr. Finn: On the basic petrochemicals, and you would have to define them product by product, there are virtually no barriers either way, coming into Canada or going into the United States. It is on the downstream stuff, on what we call the petrochemical derivatives, that there are some, and there it depends on the products.

By and large, the barriers between both countries are in the order of 10 per cent and they are almost identical, product for product, between the United States and Canada both ways.

Mr. Chairman: Are they products that do not affect your company?

Mr. Finn: We do not produce those products but they certainly affect us. As we mentioned in our brief, our products are almost exclusively sold to other manufacturers who then use them, so they are the derivative producers, processors and so on. They certainly do affect us in that sense.

Mr. McFadden: I want to ask you two or three questions. First, I take it your company has developed through the period since the Second World War.

Miss Stephenson: During the Second World War.

Mr. McFadden: It started during the Second World War and you have grown since then. Some companies have found that the general liberalization of trade worldwide has been a tremendous benefit. There was one witness before us who said, and some points have been made, that liberalization of trade may not create jobs. Based on your experience, would you say that liberalization of trade worldwide has been a useful thing for your company, or has it been hurtful?

Mr. Bentley: It is clearly a useful thing for our company.

Mr. McFadden: I gather 60 per cent of your sales are to

the American market and 40 per cent are elsewhere. Where is elsewhere?

Mr. Bentley: We sell all over the world.

Mr. McFadden: You said 45 countries, but where? Are they in dribs and drabs everywhere or are some countries bigger for you than others?

Mr. Bentley: We have a significant position in Europe, in Japan, which we supply from Canada and from Europe, and in China, which we supply from Canada and from Europe. We sell to South America, primarily from Canada. We sell in all the markets of the world, the most important being the United States, Europe, the Far East and South America.

Mr. McFadden: Let us say that protectionist legislation came in the United States in the way of quotas, special duties or taxes, or whatever. Since 60 per cent of your exports are to the United States, where would you find the additional markets? Is Canada going to absorb the amount you might lose in the US? Are there other markets readily available to you which you are not bothering to tap, or is the United States essential to you?

Mr. Bentley: The United States is essential to us. We could not place that product in Canada. That is physically impossible. The other markets we are competing in as quickly as we possibly can. The American market is equal to the European common market. We cannot replace those markets with other markets. They do not exist.

Mr. McFadden: If you started to lose significant sales in the United States, would that lead to layoffs or would everybody remain on the payroll?

Mr. Bentley: It would inevitably lead to layoffs.

Mr. Finn: Could I make one correction? The 60 per cent that has been referred to is in the brief as the share of exports from the industry, not from Polysar.

Miss Stephenson: As a matter of interest, since China did not participate in the General Agreement on Tariffs and Trade and you have developed a new arrangement with China, is it within the parameters of the GATT? Does it follow the GATT procedures, or is it a bilateral arrangement specifically on the basis of the petrochemical industry in Canada to the government of China?

Mr. Bentley: No, the principal product we had been selling in China is truly a global product. It is a unique product of a very high technology and it is priced in such a way that it moves freely around the world. It is the commodity products that we are not able to sell in China. We are not a sufficiently low-cost producer. It is high-technology products that we are able to sell.

Miss Stephenson: There have been a number of trade arrangements between countries, some of which have fairly

significant social programs. Have you any knowledge of any countries in which these social programs of a specific country have been in any way denigrated as a result of the arrangements that have been made for trade between two differing countries? Do you have any instances, any knowledge, anywhere of very major modifications to social programs which had to be made because of trade arrangements?

Mr. Bentley: I have no knowledge whatsoever. I have never heard the two linked in a business sense.

Miss Stephenson: Sweden has some fairly significant trade arrangements with a number of countries, and I have no knowledge that any of their social programs have been in any way affected by their trade arrangements.

Mr. Chairman: How long did it take you to get involved in China?

Mr. Bentley: We started selling in China in the late 1950s, and we were actually fortunate. I believe that Canada has a clear advantage in trading in the world. There is a so-called Canadian advantage. We were able to sell in China through the cultural revolution.

In China, as you probably know, old friends are very important, and if you stay with them through the difficult times, you do well when things change. We have been selling continuously since that time. In the last eight years, and particularly in the last five years, we have entered one joint venture and signed one letter of intent to build a plant in the Canton area. The other plant is in the--

Miss Stephenson: Is it 20 years and you are out?

Mr. Bentley: No.

Miss Stephenson: Great. We had better get you to negotiate for us.

Mr. Bentley: The other plant is in Shanghai.

Mr. Chairman: How did you build those friendships?

Miss Stephenson: Chairman Mao needed synthetic rubber to make tires for his army vehicles and the best place to get it was from Canada, from Polysar, and that is what he did.

Mr. Chairman: You are suggesting, Dr. Stephenson, that--

Mr. Haggerty: That is how we developed it during the war years to replace rubber.

Miss Stephenson: Exactly.

Mr. Chairman: That sounds more like the American approach. They had a need and so on. I see what has happened. The need was there in the late 1950s and the friendship developed and has continued.

Miss Stephenson: There was a Canadian advantage in China. There is no doubt about that at all.

Mr. Bentley: That is true actually in the world. It is certainly very present in China. Having worked in international markets for a long time, I find it is very distinctly true.

Mr. Mackenzie: You have given us a figure that is interesting. In the event that there was the possibility of further investment and further expansion, given free trade with the United States, is the figure in your brief accurate, that in 1984 the gross investment was approaching \$600,000 per employee?

Mr. Finn: Yes, it is accurate.

Mr. Mackenzie: It is going to take a hell of a lot of money if we are going to see much further expansion as well with very few jobs. It is a capital-intensive industry, as you say.

3 p.m.

Mr. Finn: Yes, as we point out in the brief, the industry is very capital-intensive, probably the most capital-intensive in the country.

Mr. Haggerty: Next to the farmers.

Mr. Finn: However, it does lead to significant downstream and upstream jobs in support industries.

Mr. Haggerty: I apologize for not being in to hear the completion of the full brief. Is Polysar a Canadian-owned industry?

Mr. Bentley: It is 100 per cent Canadian-owned.

Mr. Haggerty: Have you ever received any subsidy at all from federal or provincial governments over the years you have operated?

Miss Stephenson: In 1940, 1941 and 1942, to begin the industry. This was during the war, when we needed synthetic rubber to be in the vehicles we had.

Mr. Haggerty: Was that the only time?

Mr. Bentley: That is the only money ever put up by government.

Mr. Haggerty: Was that startup money?

Mr. Bentley: That was startup money. It was the original \$35-million investment. We paid dividends when we were wholly owned by the government.

Mr. Haggerty: Yes, I thought you were wholly owned by the government.

Mr. Bentley: We have never had any further funds from them.

Mr. Haggerty: When you talk about freer trade with the United States, does that have any bearing on the word "subsidy" that comes into the picture so much? When you look at the American government, it seems that every member of Congress says, "That has been subsidized at some time and we will not consider a free trade agreement." Does that have any bearing?

Mr. Bentley: We are not in any way subsidized.

Mr. Haggerty: No, but you were originally.

Mr. Bentley: That was like anything else. The government was--

Miss Stephenson: So was the aircraft industry.

Mr. Haggerty: I cannot use the word "handout". I would not think about it.

Mr. Bentley: It was like any other industry. The government happened to be an investor in this industry because of the war effort, but that was the end of it.

Mr. Haggerty: Do you get any preferred rates on natural gas and oil?

Mr. Bentley: Absolutely not.

Mr. Finn: We wish we did.

Mr. Haggerty: Are there any other industries within the Sarnia basin that may be getting lower rates of natural gas and oil?

Mr. Bentley: Absolutely not.

Mr. Haggerty: I am talking about the other one, petrol. Would you pay more for it than if the person was buying export gas and oil from western Canada?

Mr. Bentley: It was higher prior to deregulation.

Mr. Haggerty: It was higher, was it?

Mr. Bentley: It was 102 per cent of world price. We were up that high and it was going up.

Mr. Haggerty: What is your market now in sales to the the United States? Do you have much of a market there? It seems to me there are no barriers in the petrochemical industry.

Mr. Bentley: Our sales to the United States are something around \$400 million.

Mr. Haggerty: That is \$400 million a year?

Mr. Bentley: I can easily check that.

Mr. Chairman: In the meantime, I will give Mr. Ferraro the last question. We do have another witness this afternoon.

Mr. Ferraro: Mr. Bentley, Polysar is definitely a success story and a fortunate one for Ontario and for Canada. Does Polysar's management, aside from doing a lot of things right, have any special relationship with the labour force? I know personally that part of the problem is labour confrontation with management, industry and government involvement. Is there a special aura about Polysar besides the fact that it is successful?

Mr. Bentley: You have given me a platform. I believe we have developed a special relationship.

Mr. Ferraro: Are your employees unionized?

Mr. Bentley: Yes, the Polysar plant is unionized by the Energy and Chemical Workers' Union, formerly the Oil, Chemical and Atomic Workers' Union. Polysar had a significant long strike in 1959. It lasted three months and was very bitter. After that time, starting in the early 1960s, we set about trying to change that working relationship. I believe we have been very successful. The union we work with is progressive.

Mr. Ferraro: Have you had a strike since?

Mr. Bentley: We had a short one. I think it was a two-day strike. By and large, we have accomplished a lot of the things other industries are trying to do. We took what we believe was an enlightened approach to labour and tried to get it involved. We set up joint committees to look at various problems and we have had quality of working life programs. The Ontario centre has been involved in our situation.

Mr. Ferraro: It sounds as if you are a secret that should not be a secret.

Mr. Bentley: I do not think it is a secret. It is well documented.

Miss Stephenson: The program has been excellent.

Mr. Haggerty: I have one more question to follow up on what I was asking before. You have a pretty good market for exports to the United States. Have you considered that in this free trade discussion they are saying there are some good sides to it and some adverse ones. There may have to be some tradeoffs. You may have a healthy industry now that is doing very well from free trade with the United States under certain circumstances.

Have you looked at the other side of the coin? In the case of a tradeoff, the United States might use your industry to say you are coming in, that there is about \$400 million to \$600 million a year trade with the United States, and that if they do

not get a better deal with the lumber people, they might cut back on the export of products from your industry.

Mr. Bentley: Our company faces imports in this country from producers all around the world, including all the major United States rubber companies. We are able to compete effectively against that. We believe that in the long-term, because of our hydrocarbon-rich, energy-rich country, we will have an advantage, and in a free trade situation that will be a greater advantage.

Mr. Haggerty: What about the other chemical industries in the United States? Do you have a comparison with what they are exporting to Canada as to what is coming into the Canadian market?

Mr. Bentley: No, I do not.

Mr. Haggerty: Has nobody done anything on that?

Mr. Finn: In petrochemicals, the Canadian industry has a positive balance of trade with the US at the moment.

Mr. Haggerty: You do not know what the numbers are.

Mr. Finn: In the brief--

Mr. Haggerty: I am looking at the dollar figure.

Mr. Bentley: It is given in terms of a balance.

Mr. Haggerty: Maybe we can find it later.

Mr. Chairman: It has been very informative. We had not looked specifically at this industry. We had made some casual reference to it before today, but no specific reference.

We also have with us this afternoon representatives of Slater Steels Corp. Being distributed now is a brief from Slater Steels.

#### SLATER STEELS CORP., SLACAN DIVISION

Mr. Smart: My name is J. David Smart. I am the general sales manager of Slater Steels Corp., Slacan division. On behalf of the division, I would like to express my appreciation for the opportunity to appear before you. My presentation is on the subject of market access problems, both in Canada and the United States, and the relationship to free trade discussions that are currently under way both at the federal and provincial levels.

3:10 p.m.

The content of this afternoon's presentation will consist of a brief description of Slacan division, who we are and what we do, an overview of the problems in both Canada and the United States, to be followed by some specific examples to illustrate the main points that have been made in the overview. As requested, I have brought 30 copies of this afternoon's presentation. It should not be necessary to take extensive notes.

Slacan is Canada's largest manufacturer and exporter of pole line hardware, which is electrical hardware manufactured from ferrous and nonferrous alloys for the distribution and transmission of electrical energy, to both the power and communication market sectors. In your package you will find a brochure with an orange cover which gives a brief overview of what we do.

Export sales for the year ending March 1985 were approximately \$3 million out of total annual sales of \$15 million. Slater Steels Corp. in total does in excess of \$200 million annually.

Slater Steels Corp., Slacan division's major economic obstacle to increased growth, employment and profitability, both in Canada and the United States, can be summarized in one phrase, "market access problems." Specifically, in Canada, the division's access to power utility markets is seriously hindered by the existence of provincial tariff barriers which are widespread and exist in all provinces to some degree. These create an artificial economic environment for the establishment of manufacturing facilities that are either inefficient or would otherwise not exist if there was a Canadian common market. This fragmentation works against the establishment of world-class facilities that have the economies of scale to compete internationally.

At the same time, the existence of these provincial tariff barriers is creating hardships for certain industrial sectors and individual companies within them, as they are selectively shut out of provincial markets, lose business to foreign firms because of provincial preference or are forced to compete for business at unprofitable price levels.

The elimination of these provincial tariff barriers before any trade arrangements are negotiated with the United States is critical to ensure that Canadian industry has the same access to its domestic markets as US manufacturers would. To enter into comprehensive free trade with the United States without the elimination of these tariffs would leave Canadian industries extremely exposed to US competition. In addition, this move should be made early enough that the necessary rationalization of manufacturing capacity can take place.

In the United States, power utility market access problems exist as a result of buy America policies and programs adopted by the Rural Electrification Administration and other power utilities such as the Tennessee Valley Authority which, along with other state buy America policies, effectively reduce the available market size by an estimated 40 per cent. These considerations or barriers are much more of a problem than the financial tariff barriers erected by the US federal government on imports of this type of material.

As far as international markets are concerned, Slacan feels that free trade with Third World countries, with their extremely low labour rates, in combination with other manufacturing and financial subsidies, could well jeopardize Canada's secondary

manufacturing sector, not only for the pole line hardware industry, but for other secondary manufacturers as well.

In summary, the power utility market access problems encountered by the Slacan division are a direct result of Canadian provincial and US federal and state government buying policies. The division does not encounter these problems dealing with the communication and utility markets, which are primarily free enterprise as opposed to government owned or regulated.

Slacan is recommending the following solutions: Regarding access problems in the Canadian market, it is recommended that federal legislation be passed to make discrimination on the basis of provincial origin illegal for the purposes of awarding provincial government or government-controlled contracts.

The following approaches to increasing US market access, in the order of Slacan's preference, are listed below:

- (1) The elimination of federal, provincial and state government preferential policies on both sides of the border;
- (2) The elimination of nontariff and tariff barriers, i.e., financial barriers, within a sectoral concept of free trade;
- (3) The elimination of nontariff and tariff barriers within a comprehensive approach to free trade, given--and the word "given" is underlined--that such an approach will contain a sectoral-by-sectoral review, along with a comprehensive program covering off phased-in timing and whatever safeguards are judged necessary.

I propose to take you in some detail, but quickly, through some specific examples as they impact on the Canadian situation, i.e., provincial tariff barriers, and subsequently give some illustrations of the US situation.

Provincial tariff barriers are defined as any provincial government policy or practice that effectively restricts bidding on government-controlled contracts to companies residing within its own borders or, alternatively, that gives a real financial advantage to companies bidding from within its own borders on provincially controlled contracts.

Where do these problems occur? Provincial tariff barriers are widespread within Canada. With the exception of Ontario, which offers a 10 per cent preference for Canadian-manufactured goods over foreign goods, all provinces have barriers of one type or another. Appendix II in the package you have before you today gives a province-by-province description of those barriers.

The impact of these barriers can vary dramatically from province to province and industry to industry. The worst situation is undoubtedly in Quebec, where only Quebec construction firms may bid on government business and where manufacturers from outside the province are unable to compete or are unable to compete at an acceptable rate of profit. It is not an exaggeration to state that for many non-Quebec-based companies competing for Quebec

government business it is easier and less expensive--in other words, the tariff barriers in the United States are lower--to export into the US than into Quebec.

What impact are these barriers having? Outside of the problems created for individual companies, i.e., Slacan, that must attempt to survive in this environment, provincial tariff barriers are creating structural problems for Canada which will ultimately have a major impact on Canada's international competitive position.

Specifically, provincial tariff barriers encourage the establishment of small, inefficient manufacturing facilities whose sole existence is derived from the tariff barriers behind which they hide. In a number of cases, this may be the only way a manufacturer could stay in the marketplace and survive. This is not necessarily a bad solution for either the province involved or the manufacturer involved, but it is bad for Canada since it means either inefficient duplication of manufacturing facilities or regional dislocation as a firm moves from one province to another to avoid tariff barriers.

Provincial tariff barriers encourage manufacturers from other provinces, primarily Ontario, to relocate in Quebec so they can avoid Quebec provincial tariff barriers and subsequently export back into Ontario, which has no trade barriers. Such moves are often made practical by the various federal and provincial incentive plans designed to encourage industrial development in depressed parts of the province.

In at least one documented case, a manufacturer has ceased operations in Canada because of the existence of provincial tariff barriers which precluded a large section of the market from this firm. This was McGraw-Edison. The news release on this closure is contained in appendix III of this report.

In at least one documented case, a Canadian manufacturer with 100 per cent Canadian content--in this case it was us and Ontario content--that was low price, lost that contract to a foreign supplier based upon provincial content. That case is documented in appendix IV.

It is felt that the various provincial government and industry groups would undoubtedly be able to document similar cases to the one we have to present to you here today.

3:20 p.m.

In terms of how people have responded to this problem over the years, there have been several attempts made to resolve the problem of provincial tariff barriers, all of them ending in failure. As early as October 1977, it was proposed at a meeting of financial ministers that provincial tariff barriers be eliminated in favour of buy Canadian guidelines. Notwithstanding several subsequent meetings on the subject, no progress of any tangible nature has been achieved. Nothing has occurred that would indicate any progress is about to be achieved in the short term.

In conclusion, on the Canadian access market problems, a

review of the problem and the lack of progress made to date in dealing with it leads to the following conclusions:

Provincial tariff barriers seem to undermine Canada's international competitive position by creating a structural barrier to the construction of competitive or world-scale manufacturing facilities.

Provincial tariff barriers can result in loss of business to Canada, even when Canadian bidders are low-priced and have 100 per cent Canadian content.

Provincial tariff barriers can often result in increased economic benefit to the province with the tariff barriers, but only at the expense of another province.

Ministry sectors and individual companies within these sectors are being damaged as duplicate and surplus capacity is brought on line behind provincial tariff barriers. When this occurs, the companies involved are weakened financially and their ability to compete internationally is inhibited.

Finally, efforts made to date by both levels of government have been ineffective in resolving this problem.

Our recommendation in the context of this particular part of our presentation is as follows:

Given the potentially severe economic impact of provincial tariff barriers on Canada's international competitive position, the resulting regional economic dislocation, the damage done to specific industry sectors and industries and demonstrated inability of the negotiating process to resolve this problem, it is strongly recommended that the federal government, through legislation, make the practice of erecting provincial tariff barriers illegal.

Finally, the last part of our presentation deals with the US market access problems. At present, Slacan pays an import duty of 6.7 per cent on the products it exports to the United States. American manufacturers making the same products and exporting to Canada pay an import percentage of 12.1. At present, given the current rate of exchange, the division is able to pay these import duties and make a profit.

It would be a fair statement to make that with respect to the division's export activities into the United States, this is the smallest problem we encounter. The major problem is nontariff barriers erected by various utilities, particularly those that are financed under the Rural Electrification Administration where there are strong buy America policies, as well as a number of other utilities, such as the Tennessee Valley Authority, with buy America policies as well. Again there is an appendix in your package prepared by the Ontario Ministry of Industry, Trade and Technology which gives you a brief summary of these problems.

Above and beyond that, less formal preferences are adopted by other utilities which tend to restrict the bidding to American

suppliers. The elimination of these nontariff barriers would go a long way to opening up the market for Slacan and we believe for other manufacturers who are involved in government contracting in the United States.

At present, we estimate 40 per cent of the power utility market is restricted by these nontariff barriers. To achieve this objective, it would be expected that Canada would eliminate the existing provincial tariff barriers which do not disqualify American bidders at this time, but which penalize them at the time of tender evaluation.

While that does not result in anything approximating free trade, it does result in enhanced Canadian access to US markets. As far as the actual monetary tariff barriers are concerned, these are coming down at a steady rate of five tenths of one per cent from the current level of 6.7 per cent to a final level of 5.7 per cent which will be reached under the current GATT negotiations.

At present, monetary tariff barriers are structured in Canada's favour. This may make some sense, given the relative size of the Canadian market and the relatively small Canadian volume relative to that obtainable in the United States.

With respect to an overall approach to enhance market access, assuming that it is desirable to take steps above and beyond the elimination of government-imposed nontariff barriers, Slacan would feel much more comfortable with a sectoral or functional approach rather than a broad comprehensive approach to free trade.

The rationale behind this preference is twofold. One, the sectoral approaches taken on the automotive pact and the US-Canada defence production sharing agreement have proven their worth and effectiveness. Two, the sectoral or functional approach would give the industry the confidence that the vast majority of factors affecting the industry would be closely examined before the implementation of a free trade agreement. If the question of free trade is handled on a sectoral or functional basis, the comprehensive approach would ultimately develop and take care of itself.

Finally, it is recognized that from a political point of view, a comprehensive approach may have to be offered to the Americans to get them to take any interest in these discussions at all. If this is the strategy that is finally settled upon, then Slacan would support it only on the basis that it contained industry sector-by-sector review as well as safeguards on timing and progress review to ensure that no industry sectors were inadvertently damaged. Specifically, Slacan does not support the so-called leap of faith approach to free trade between the United States and Canada.

Finally, on multilateral trade, Slacan is not supportive of this approach. Regardless of all the safeguards that people talk about putting in place to ensure integrity on a free trade basis, past experience makes one doubtful that the controls and monitoring mechanisms could ever be effectively put into place.

Even if this objective could be achieved with the extremely low rates of labour that are available in some countries, such as Korea, Taiwan and other Third World countries, free trade with these countries could do irreparable damage or harm, if not result in the complete elimination of some secondary manufacturing sectors. Free trade with these countries, in our opinion, should be approached with extreme caution.

Thank you very much for the opportunity to make this presentation.

Mr. Chairman: Thank you very much. It was very thoughtfully put together.

Mr. McFadden: You mention the federal government passing legislation essentially to prevent barriers being erected by provincial governments on government procurement of one type or another against suppliers from other provinces. I am not sure Parliament has that power, although I have not researched the law on that. Do you have a legal opinion that indicates Parliament has that power? I know there was talk about that being in the Constitution, but do you have any evidence or any legal opinion that indicate Parliament has that power? Notwithstanding the fact that it might be good policy, do you have any indication that it could even be achieved?

Mr. Smart: The answer to your question is no, we have not pursued that. The pragmatic reason we have not is the perceived expense involved in pursuing that issue. As a company we have worked on this problem since 1981, primarily with what is now known as the Ministry of Industry, Trade and Technology. Our experience in that area led us to the conclusion that it could be effectively dealt with only on a federal basis. The various meetings that have been held since 1977 tended to reinforce the feeling that it would have to be a federal solution or there would simply be no solution to the problem.

Mr. McFadden: I wonder if we might seek the opinion of the Ministry of the Attorney General. I have a feeling it is beyond the competence of Parliament.

Mr. Chairman: I have the same feeling. It is something I have not looked at for a long time. I know there was a lot of case law in the early part of the century, and then it was discussed again in 1981-82. Mr. Traficante is not certain either.

Mr. McFadden: I think it is beyond the jurisdiction of Parliament. We might make inquiries to find out if it is possible and if a suitable suggestion could be made.

3:30 p.m.

Mr. Taylor: I was going to say that, especially in view of the debate that surrounded the constitutional talks. Again I want to interrupt myself and apologize for not speaking too clearly into the microphone. During those constitutional talks, there was a day over the free movement of labour, capital and money. If we are pursuing this, we should recall that as well as

recalling the federal jurisdiction in terms of interprovincial trade as opposed to intraprovincial trade.

Mr. Smart: The only comment I can make on that is that it does represent discrimination of some description.

Mr. Taylor: There is no doubt about it.

Mr. Smart: The question would then be whether in a constitutional context that was a legal problem.

Mr. Taylor: The biggest offender is Quebec. There, one has a mixed economic, political and constitutional problem. In Quebec, you have a prohibition on contractors from outside Quebec doing business in Quebec.

Miss Stephenson: Absolutely.

Mr. Taylor: You are into the area of property and civil rights, which constitutionally is a matter of provincial jurisdiction. You have that on the one hand, and then you have the other question of government procurement and the 10 per cent advantage in the area of product-buying. We have that in Ontario, and we have had experience. I think you pointed out in your brief some of the discrimination exercised with the Bombardier contract. We opted to accept the higher bid from Hawker Siddeley rather than Bombardier's to preserve jobs in the Thunder Bay area.

Mr. Smart: I point out that, from our perspective, that is an isolated case. I suspect the people who made it may wish they had not, if only because it is the one everybody remembers.

Miss Stephenson: Every single person remembers it, and it is one instance. Quebec practices it every day of the week in a much more virulent form.

Mr. Taylor: It was an aberration.

Miss Stephenson: It was an aberration.

Mr. Taylor: At the time, I think cabinet went through a great deal of soul-searching.

Miss Stephenson: Agony would be more to the point.

Mr. Taylor: It was a matter of domestic interest in the light of an environment that was very protectionist vis-à-vis the other provinces.

Mr. Smart: Let me clarify my comment. When I used the word "unfortunate," it was only in the context that Ontario, to the best of our knowledge, is the only province that has a nontariff barrier situation and a Canada-first situation. That approach, unfortunately, has been tarnished by that one decision, which has been pointed out to us.

Mr. Ferraro: Unless you are talking about the brewing industry.

Mr. Chairman: The brewing industry is an exception.

Mr. Smart: I am familiar with the product. It is the context and the comment I do not understand.

Mr. Ferraro: I am led to believe the brewing industry in all the provinces indicates you cannot sell--

Interjection: Unless you put a plant in there.

Mr. Ferraro: --unless you put a plant in Ontario. That might be one exception.

Mr. Smart: That is not government. I am sorry. You are right; it is.

Mr. McFadden: Following up your points in appendix II, are you proposing that all barriers of any type, period, be knocked down, or are you suggesting that perhaps the Ontario model of giving a preference to Canadians is a reasonable compromise, or are you basically saying we should first wipe out everything so we have a Canadian free trade zone for Canadian suppliers? I want to get at exactly what you are saying in relation to all the barriers you have listed in appendix II.

Mr. Smart: I am going to have to ramble a little. Our concern can be looked at in two ways. First, we have serious access problems to Canadian markets, particularly in Quebec and British Columbia. Our concern is heightened by the prospect of some sort of agreement with the Americans that might allow them to come into this country at the same time we still have those obstacles. For example, if the Americans could come in on a negotiated basis and sell in Quebec while we still had those barriers in front of us, we would be extremely hard-pressed as an industry and as a company.

In terms of the American market, we believe we are shut out of 40 per cent of the available business. If that problem could be resolved, we would walk away from this or any other table very satisfied. As somebody else asked, what are we going to have to give up? Frankly, if I can describe what we would have to give up as provincial tariff barriers, we would not be giving up anything. It would improve the strength of the Canadian market and it would improve our ability to compete, both in the United States and internationally.

From our point of view, if we could achieve both of those things simultaneously, it would be a win situation across the board. The financial barriers are not a problem. We can afford to pay that 6.7 and make money. That is the smallest of the problems we have, the actual financial barriers under GATT.

Miss Stephenson: The nontariff barriers.

Mr. Smart: The nontariff barriers, which basically say we cannot play the game.

Mr. McFadden: I want to be sure what you are saying with regard to the United States. You are saying that if these various nontariff barriers, the buy America act and all the other procurement policies, were repealed or somehow removed on the basis of some kind of arrangement between Canada and the United States, either on a sectoral basis, partial agreement or total free trade, whatever you might want to talk about, your company could compete in the American market against American companies in a similar industry.

Mr. Smart: We are competing now. Of that \$3 million we are earning abroad, \$2 million is in the United States. That means we are paying our tariffs to get in. But those are dealings with companies where we did not encounter those buy America policies or obstacles we cannot overcome.

Mr. McFadden: What kind of market increase would you expect if you were able to get some additional access to the market? Let us say we were successful in years to come as a country in having these various American nontariff barriers removed, presupposing the Canadian ones are removed. Have you done any projections in terms of the sales increase you might expect to get if that were to happen?

Mr. Smart: For want of any other way of approaching it we would assume it would be proportional. No, thinking about your question, it would not be proportional, because the vast majority is in the power side. We would have to be talking in multiples of three, four or five times the volume we do now.

Mr. McFadden: On your \$3 million? In other words, you would be looking at \$12 million or \$15 million of sales to the American market?

Mr. Smart: On our \$2 million, we would be looking at multiples in the three, four and five area, just off the top of my head, to give you a feel for the impact that would have.

Mr. Haggerty: I have one supplementary or follow-up question on that. You are currently exporting goods to the United States. Looking at the high American dollar, which today is 30 or 35 per cent higher than the Canadian dollar, if that were lower, say down within a five per cent range of the Canadian dollar, could you compete in the American market?

Mr. Smart: It is a good question. I would say we would have a difficult time. We are taking full advantage of the exchange rate we now have. The only offset we have, like everybody else, is that we have tightened up the ship during the recession, we have trimmed it down and we have it lean, which is helping our competitive position.

Even if that exchange rate does go, there are some offsets. For example, materials that we use, commodities such as aluminum, tend to be priced internationally. As the Canadian dollar gained strength against the US dollar, the cost of procuring that aluminum would go down. We would get some offsets in the manufacturing process. It is hard to give you a black-and-white

answer, but certainly, if it went back to close to par, we would have some concerns.

Mr. Taylor: In listening to you and having perused your brief very quickly, I surmise your concern is more with interprovincial trade within Canada than it is with the freeing up of trade with the United States? Would that be a fair observation?

Mr. Smart: I am going to say no to you, with an explanation. Historically, it was. In our 1981 discussions at the provincial and federal levels, we were trying to get that problem solved. Our concern is heightened by the prospect of a free trade agreement in which the Americans might have unfettered access to markets where we still have a problem getting into those markets because of existing preferential policies.

What we wanted to do in this brief was to highlight that concern and say, "Look, if you are going to come to an agreement with the Americans, get your Ontario manufacturing companies free and unfettered access to the balance of provincial marketplaces before you let the Yanks have a crack at it."

3:40 p.m.

Mr. Taylor: So you want a level skating rink in Canada--

Mr. Smart: All we want is a fair chance to compete.

Mr. Taylor: --level ice within the country before you start talking to the Americans about a level playing field between the two of you?

Mr. Smart: Yes. We would like a common market situation in Canada. I think that has to come, because there will have to be some rationalization of manufacturing facility. It is much better to have that shakeup take place before a free trade agreement is implemented.

Mr. Taylor: Okay. So that is a caveat, as I hear your presentation, of Canada negotiating a freer trade arrangement with the United States. Directionally, I am prompted to conclude that you are in favour of opening up freer trade with the United States. Is that right?

Mr. Smart: Yes, that is an accurate statement. The buy America policies are a major stumbling block for us. I would be less than honest if I said I did not like the six to 12 per cent spread on the tariffs. Given the size of the Canadian market, which is 10 per cent of the United States market, there may well be a case to be made to justify that kind of spread.

If you are going to go anyway, our first choice is for sectorally. We have seen it work in automotive, and we have seen it work in defence. We are confident a detailed investigation, sector by sector, would be made. We have reservations about the comprehensive approach, only because we are afraid there might be the people who would get lost in the shuffle.

Mr. Taylor: Do you feel your industry is in a position to compete in the United States? Do you have any reservations about being competitive there? I am mindful of the present tariff arrangement and the present nontariff barriers and the fact that \$2 million of your \$3 million in exports are to the United States. Do you feel there would be an advantage? Presumably you do, in a market 10 times larger.

Mr. Smart: Yes, very much so. We are competing now and we are making a profit. As I described the process, a lot of Canadian manufacturers are more competitive in 1985 than they were in 1981, before the recession really took hold. We are in better shape to compete. The exchange rate mentioned over here is a major part of that success. A lot of manufacturers rather hope it is going to be permanent fixture.

Mr. Mackenzie: I take it that a lot of your success would depend on that exchange rate staying the way it is.

Mr. Smart: Yes. The exchange rate is the market's way of recognizing that Canada does not have the productivity we might like to have in some areas. We do not have the volume the Americans have, and we do not have the low labour rates they have in some of the southern states.

Mr. Mackenzie: I take it that when you talk sectorally, you realize the auto deal is not a free trade arrangement; it is a managed trade arrangement, as has been made very clear to us by those involved.

Mr. Smart: I used that as an example of one market that was negotiated as a package, in which there are no financial tariff barriers, although I gather there are specific trade barriers.

Mr. Mackenzie: There is comparable legislation in effect.

Miss Stephenson: But it is based on an agreement reached by the governments of Canada and the United States. What we have heard on several occasions is that it would be better for us to attempt to relate to the United States within the framework of an agreement of some sort than to try to relate to the United States on this basis, which is entirely ad hoc, except for those circumstances in which we ought to have a specific sectoral agreement.

Mr. Smart: We recognize that politically, to get them interested, it may very well have to be a comprehensive approach. We would probably be very surprised if it were not.

Our only hope is that there will be enough safeguards and reviews and discussions held to make sure no secondary manufacturing or primary sector is damaged in the comprehensive approach. That is why we specifically said we are uncomfortable with the so-called leap of faith. Jumping into it and worrying about the bits and pieces later gives us concern.

Mr. Chairman: Are you worried that if we start with a

comprehensive approach, which both governments have said is the only way to go?

Mr. Smart: This relates back to Miss Stephenson's comment. When you are looking at one sector, to some extent it concentrates the mind because you are only looking at cars, steel or shoes.

When you take a comprehensive approach, all you can do as a manufacturer is hope that sufficient care goes into the process, that there is time for each sector to be dealt with, meaning the kind of discussions we are having here today so people can put forward their concerns. One hopes it will be dealt with properly.

Mr. Chairman: I got the impression when we were talking to the United States Trade Representative that their process would involve a minimum of six months during which there would be a sectoral approach done in their country. Obviously, we can be doing the same thing here.

Mr. Taylor: And public hearings.

Mr. Chairman: And public hearings.

Mr. Smart: Yes. ,

Mr. Chairman: Does that alleviate any of your worries?

Mr. Smart: Yes, it does.

Again, in the approach we identify three separate aspects:

1. Get rid of preferential policies. We are saying that if you achieve only that it would be a major step forward, again in the context of our industry and our company.

2. Our second choice would be sectoral but we recognize the pragmatic, political realities of the comprehensive approach, and we indicated we would support that. But we would want to see the kinds of things you are mentioning in place.

Mr. Chairman: That makes sense to me.

Miss Stephenson: The final paragraph of the portion of your brief relating to the United States trade situation is specifically directed towards multilateral trade agreements. You express concern, and I understand it related to steel manufacturing and a number of the newly industrializing countries, but you are not really suggesting that Canada should opt out of the General Agreement on Tariffs and Trade, because I'm not sure that we can do that. I don't really think that is what you meant; I think you meant caution regarding any kind of arrangement in the area of steel should be undertaken in all of our GATT discussions.

Mr. Smart: Dr. Stephenson, I think I probably would phrase it this way; we can't understand how we could compete with a country that is paying 30 cents an hour regardless of how efficient we are.

Miss Stephenson: Yes.

Mr. Smart: Our feeling was that if they had open access to the Canadian market, there would be a lot of damage done.

Outside of the economics of their ability to compete against us in our own marketplace for Canadian business, our experience has led us to be concerned about hidden subsidies. A case in point would be the French steel industry where they have spent \$10 billion in the last 10 years. There are no subsidies of any type for Canadian steelmakers and on that basis it becomes unrealistic to expect Canadians to compete in an unfettered environment.

Miss Stephenson: The same circumstance pertains to agriculture in terms of the subsidies to farmers, for example, which are larger in the whole European Community but particularly in France and of course within the EC, there is the same kind of difficulty.

The caution you are providing to us relates primarily to those areas in which hidden subsidies or labour costs would be specifically difficult to cope with, but you are not really suggesting that Canada bow out of any further GATT negotiations.

I don't see how we can do that. We have played a part in the first two GATT rounds.

Mr. Smart: I understand.

Miss Stephenson: The fact that we are there or have been there precludes any possibility of leaving.

3:50 p.m.

Mr. Smart: Well, maybe I can respond to that with a rhetorical question. At what point will the political forces say, well, all right, it is now time for Canadian citizens to pay an extra 10 per cent for a pair of shoes as opposed to having them come in from Taiwan, or does that point ever get reached?

Miss Stephenson: Oh, I am sure it has been reached ever since the Tokyo Round. Although there has not been an additional 10 per cent, there has been a quota based upon the importation of certain footwear articles and certain textiles. This was specifically because of the tariffs we were consistently reducing. It was done to phase in increased competitive capability on the part of those industries in Canada.

One of my worries is I am not sure there has been any increased competitive capability demonstrated by any of the industries up to this point. There may be by some of them, but they are still requiring the quotas. There has to be an end to that at some stage.

Mr. Smart: One of the questions that may have to be asked is: Is there anything those industries can do with respect to their own capital investment and their own productivity that

would allow them to offset a 30-cent labour rate when they are paying their people, what, \$6 or \$7 an hour? It may not be achievable.

Miss Stephenson: This begs the question as to whether there are industries which Canada simply cannot manage to sustain in relatively active international trade.

Mr. Taylor: Then you are getting into an industrial strategy or policy. I would think so anyway.

Mr. Mackenzie: From there it goes political--

Mr. Smart: The reason we have taken the decision we have is we feel the Americans are what we would describe as fair traders. They work in a very similar market and economic and social environment to us. We feel we can live with them as competitors in the North American marketplace. Frankly, we have very strong reservations about the impact the firms from those low labour rate areas could have. We recognize that will inevitably be a critical decision.

Mr. Chairman: What you just said is interesting because it is something we heard a lot of in the United States; the concern about Third World countries or particularly, the Pacific Rim countries. We have not heard too much about it from other Canadians although it really applies as much to us as it does to them.

Mr. Smart: That may only be that--it is a subjective response on my part--if you were in the Pacific Rim and you were manufacturing something, you would probably pay attention to your largest market, and that would be the United States. You could then worry about Canada somewhere down the line because it would only represent 10 per cent of the action.

Mr. Chairman: But we have textile and footwear industries here, too, that must feel the same way.

Mr. McFadden: That is an interesting approach because of the effect on the big American market. I do not know if what you are saying is true, but if it is and it starts to hit us next year we are really going to feel it, although I think we have already been hit. I have a feeling that what may be happening here on this side is Canadians are somewhat more international in their approach than Americans are.

Take a look at the percentages of our production and work force and our dependence on exports versus the Americans. Roughly 10 per cent of the American work force is in any way export-related. Ours is 30 per cent. I am wondering if Canadians tend to be more accepting of foreign products than Americans who are used to being in a dominant position in everything and who are now finding their sudden reversal in condition to be disconcerting.

The big story today in the news was the United States is now, for the first time since 1914, a debtor. It looks like it may need another war to get itself out of this position.

Miss Stephenson: David, shut up.

Mr. McFadden: I am saying that it is absolutely remarkable that for the first time--how far back now?--in 70 or 71 years--you have to go back that far to find the Americans in their current position. I do not expect you to have an answer, but I find what you were saying interesting. I have a feeling we are as equally invaded, but that we are not as conscious of it. Maybe Canadians should be more conscious but perhaps we are not as conscious of it as the Americans are.

Miss Stephenson: On a per capita basis, this country imports more than any other developed country. We have depended on imports much more than any other developed country has. Does that increase our sensitivity to international relationships? I do not know, but it probably does. We do not have the feeling, as the Americans do, that we can produce absolutely everything we need. I think we have been a good deal more realistic than that.

Mr. Haggerty: The fault the Americans have now is the dollar is overvalued, they cannot sell their goods, they are too expensive. That is the problem. I think we are going to see some drastic changes in that area. They are bringing the dollar down, they are going to soften it to some degree.

Mr. McFadden: They have to cut their deficit.

Mr. Haggerty: They simply have to start exporting.

Mr. McFadden: They cannot go on this way forever in their present economic position. It is beginning to work against them.

Mr. Chairman: Are there any further questions or comments? Thank you very much. This has been a very thoughtful and sensitive presentation.

Miss Stephenson: Furthermore, it reminds us of the area in which we really must become involved again, the reduction of interprovincial barriers.

Mr. Chairman: There is no doubt we have to address that in our interim report in some way.

Mr. Smart: Mr. Chairman, thank you very much.

Mr. Chairman: Thank you. I understand Miss Stephenson will not be involved in some of the proceedings in the near future. I just want to assure her our prayers and thoughts will be with her, and she will be with us as soon as possible.

Miss Stephenson: Oh, thank you. I am sure I will recover. You will probably be delighted to have such an affable soul as Mr. Brandt in my place, rather than needly old Stephenson.

Mr. Hennessy: Does he have a good sense of humour, to take your place?

Mr. Knight: We heard he was looking for some extra money.

The committee adjourned at 3:57 p.m.



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ONTARIO TRADE REVIEW

MONDAY, SEPTEMBER 23, 1985

Morning sitting



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Witnesses:

From the Canadian Wall Covering Distributors' Association:

Batchelor, P., Ontario Sales Manager, Sunworthy Wallcoverings  
Brown, W. S., President, Walter L. Brown Ltd.  
Isenberg, H. W., Vice-President, Sales and Marketing, Canada  
Wallcoverings

Mascall, D., General Manager, Wallcoverings Division, Selectone  
O'Neil, B., Wallcovering Manager, Consumer Products Division,  
Bapco

Wickham, A. T., Consultant, A. T. Wickham and Associates Ltd.

From the Manufacturers Life Insurance Co.:

Bennett, J., Vice-President, Corporate Development  
Harris, L. E., Senior Vice-President, International Operations  
Pietroski, J. J., Vice-President and Secretary

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, September 23, 1985

The committee met at 10:05 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Perhaps we can get started. This morning we have with us the Canadian Wallcovering Distributors Association, and they have distributed a brief.

Mr. Arthur Wickham is going to be the spokesman for the industry. He would like to go through the brief with us and then he will be free to answer questions.

WALLCOVERING INDUSTRY

Mr. Wickham: First of all, I would like to introduce the members of the Canadian Wallcovering Distributors Association committee. On my left is Mr. Dennis Mascall who is the vice-president of the association. He is from Selectone Wallcoverings. Beside him is Howard Isenberg from Canada Wallcoverings. He is the president and chief executive officer. Stuart Brown is from Walter L. Brown and Co. Ltd. He is also the president and chief executive officer. Barbara O'Neill on my right is from Bapco and she is the director of sales of wallcoverings and on my extreme right is Mr. Paul Batchelor from Sunworthy Borden, who is also a director of sales in that organization.

What I would like to do is to run through the brief very quickly and pick out the highlights. Then I hope you will ask us as an association, any questions you want to put.

First, I would like to make the point that the Canadian Wallcovering Distributors Association is a national organization with a very strong base in Ontario. In fact, you could make the statement without being unduly chauvinistic or Ontario-centred, that the Canadian wallcovering industry is an Ontario industry. The Ontario industry in this case equals the Canadian industry.

As we point out, most of the manufacturers are located in Ontario. The largest wholesale distributor chains and two of the largest retail chains are headquartered in Ontario. The bulk of employment in the distribution section is also in Ontario. We figure about 54 per cent of all sales of wallcoverings in Canada are made in Ontario.

The nub of our submission is that we would like to see the tariffs on wallcoverings eliminated or equalized with the United States in order to achieve the following objectives:

1. We want to maintain the present access of Canadian wallcoverings into the United States which I believe is consonant

with the terms of reference of the select committee.

2. By eliminating tariffs and so on, we will be furthering, in general, the enhanced access of all Canadian products into the United States. The thinking here is that in a negotiation process you have a kind of quid pro quo and this could well be the quid you get the quo for.

3. Very much on our minds is the need to reduce the cost of wallcoverings to consumers. This is an objective we feel is consonant with the desire of the Ontario government, indeed of any government, to ensure a higher quality of life for the people under its jurisdiction.

4. The last point, although not necessarily the least in importance, is the expansion of employment in the wallcovering and related industries.

I would like to make a point now and I will reiterate it later and that is in any negotiation about tariff reduction, you soon have to get away from generalizations and discussion of semantics of whatever it is you are talking about. You have to get down to a detailed, piece-by-piece negotiation. This submission is offered in the belief that it provides a model or example of the way in which negotiations might be conducted: namely, on this detailed industry-by-industry, not sector-by-sector, basis.

To turn to summarizing the brief more fully, we ought to define the product we are talking about. I have gone on somewhat glibly--not glibly, but fluently, accurately and in a highly articulate way--discussing the problem, but we have not discussed the product we are talking about.

By wallcoverings, we mean not only wallpaper, but also those wallpapers which are stuck together or laminated to textiles. It covers the range of anything that goes on the wall provided it is produced in rolls.

That is a layman's description of it, and I put it in layman's terms because that is the way I understand it. That is the nature of the product we are talking about.

On page 2 we discuss some of the different varieties of the product. The wallpaper can be coated or uncoated; vinyl wallcoverings are laminated to nonwoven substrate and so on. I will leave that for more detailed perusal later.

A word on the major Canadian producers is on page 3. There is Canadian General Tower; Berkley, now acquired by Imperial Wallcoverings in the United States; International Wallcoverings in Ontario; North American Decorative Products; Sunworthy Wallcoverings; Waldec; Wallcrown; and Ultima Wallcoverings.

All of these, with the exception of Berkley Wallcoverings, are located in Ontario.

At the bottom of page 4 we have listed the main distributors and importers. They include Bapco, represented here; Canada

Wallcoverings, represented here; Selectone, represented here; Sunworthy, represented here; and Walter Brown Co. Ltd, also represented here.

There are some regional distributors as well.

The retail market is dominated by a few major chains, principally Colour Your World and St. Clair Paint and Paper. It has been estimated that approximately 50 per cent of all sales of residential wallcoverings are made through these chain stores.

These chains have eroded the position of the independent retailers who 20 years ago held 90 per cent of the market. Among other things, we are concerned about the future of these independent retailers. We will argue later that reduction of tariffs would help them quite a lot.

On the question of tariff policy, it is difficult to see what industries are being protected by the duties levied on wallcoverings.

If the wallcovering has what may be regarded as a paper backing, in 1987 it will come in at a duty of 7.5 per cent. If it has a textile backing, depending on whether it is a man-made fabric or a natural one, the duty is 25 per cent or 22.5 per cent. Plastic wallcoverings are classified at 13.5 per cent.

These percentages I am giving are percentages of the 1987 rates.

We feel this tariff policy is ill considered; it has created an unnecessary burden and does not effectively protect what it is supposed to protect.

10:20 a.m.

The main source of imports of wallpaper is the United Kingdom. I am using the term "wallpaper" precisely here. The main source of imports of fabric-backed vinyl wallcoverings is the United States. This is outlined on page 6.

I would now like to turn to our observations on the export market on page 7. Here the figures are quite astounding in that more than half of the total Canadian production of wallpaper is exported. It is exported to the United States. We export to the United States much more than we import from them. Wallpaper produced in Canada accounts for more than 40 per cent of US imports. A much lower percentage of wallpaper comes into Canada. There is a great disparity, therefore, in the balance of trade.

On page 3, we make the point very clearly. In 1984, US imports of wallpaper amounted to \$15.6 million, whereas Canadian exports of wallpaper to the United States were valued at \$80 million. This gives you some idea of the great disparity between them. In a very brief outline, this is the background. We have supported it with an array of statistics which I will not use at the moment.

I would like to turn to what we feel would be the impact of enhanced, free or freer trade. I am not listing these in order of importance. The order of importance will vary with the particular concerns anyone has in mind.

I am carrying on from what I have just said about the disparity between Canadian exports of wallpaper to the United States and Canadian imports from the United States. This fact has not gone unobserved in the United States. There has been some powerful lobbying by US interests to ensure some rectification of what they think is an anomalous and unfair situation. In 1987, there will be no US duties payable on wallpaper going into the United States. For US wallpaper coming into Canada, there will be a 7.5 per cent tariff.

They are also concerned about the great disparity between the rates of duty leviable on fabric-backed vinyl wallcoverings coming into Canada, which will still be 22 or 25 per cent. In the United States, it will be much less, varying from about four per cent to 11 per cent depending on certain factors. It will be much lower. This has caused them concern.

It caused them concern in the multilateral trade negotiations, the so-called Tokyo round. Last year, a trade magazine devoted an amount of space to it. It has caused them concern in the buildup to any negotiations in this round. Evidence of US protectionism is afforded by two events that have taken place since 1979; namely, the United States lobbied very strongly for a favourable tariff treatment for sample books. It also lobbied very strongly against Canadian General-Tower to ensure that Canadian General-Tower paid a higher rate of duty than the International Trade Council was prepared to allow.

Therefore, the first point we are making is the need to maintain continued access to the United States market.

The second point we want to make, and I will only touch on it briefly, is the general context of Canada-US trade. If you are in negotiations and if you want to make a successful negotiation, you have to have a quid pro quo.

The next point we would like to make is the competitive position of the Canadian industry. We feel that the--we do more than feel. That implies emotion, but this is based on pretty objective considerations. The Canadian wallpaper industry is a mature industry that is a worldwide competitor and is not only capable of standing, but actually does stand, on its own feet.

It is not a question of having to nurture a tender plant, so to speak, in the hope that it will eventually grow to be an oak. The thing is already an oak at the moment. It can compete, and it will be able to continue to compete, despite any erosion in the value of the US dollar, because its processes are more efficient than those of its American counterparts.

The major fear, as we say, might be competition from the European Community. Even there, we are not so confident that we think--first of all, the erosion in the value of the dollar, which

may take place according to today's news, will help to make the EC's products less attractive. The other thing is they have not really been able to penetrate the market adequately at the moment.

The next point we make is the burden on the consumer. We have already spoken about the effect of the tariffs. Perhaps a good way of illustrating it is on page 11, "A material which is sold to the US consumer for C\$25 retails in Canada for about \$35 a roll." That gives you some idea of the burden assumed by the consumer.

We would also point out that the tariff policy, as we said before, seems to be at odds with economic reality. Tariff policy is based on the need to protect or defend textiles or pulp and paper products. We do not think that the duty actually meets these objectives because the textiles used in the manufacture of fabric-backed vinyl are not obtainable in Canada and have to be imported anyway. Also, the types of people who make fabric-backed vinyl do not make textiles, so the tariff is not really serving the purpose it is supposed to serve.

The next thing is we foresee that, in fact, the reduction of duties on wallcoverings would lead to an expansion of employment in the wallcovering and related industries. The argument here is a bit nuanced in that the future of the Canadian manufacturers depends, to a certain extent, on them having available to them an independent wallcovering distributing facility and also independent retail. Otherwise, they would be at the mercy of the retail chain.

10:30 a.m.

Mr. Isenberg and other members of the committee can expand on this better, or more authoritatively, than I can. The way the industry works, the distributor can hold a wide variety of stocks or books, as they are called, from which the independent retailer can draw. Thus, through the services of the independent wallcovering distributor, the retailer is able to offer a greater variety of products, which will lead, of course, to an expansion in the service area of employment.

We do not have any strong suggestions on the question of industrial adjustment measures that might be needed, except that, if the tariff was removed, we do think it should be possible to enable the wallcovering manufacturers to import their materials duty free, even if the goods are not going to be exported. The case for industrial adjustment should be assessed on a firm-by-firm basis.

That is the gist of what we have said. I will leave it here for any questions you may have. I would like to finish by saying that, in our view, intelligent discussion of freer trade or enhanced access requires the same detailed study as actual negotiation. This paper offers a beginning of such a study in the case of one product where, on initial study, reduced tariff barriers would enhance Canadian access and remove import policy anomalies that impede trade.

In addition, we believe that the bottom line of economic

activity is increased employment, which we have dealt with. In connection with a higher quality of life, the interests of the consumer must not be overlooked. Increased choice and better-looking office and hotel accommodation are also factors we think enter into any rounded, full and comprehensive discussion of enhanced access, freer trade, free trade or whatever term you like to apply to the process by which tariff barriers are reduced or eliminated.

I hope, if there are any questions, you will ask them not only of me but also of the members of the panel.

Mr. Brandt: You identified the size of the Canadian industry and then the Ontario component. I wonder if you could break it down further. Is most of the Ontario activity located in Toronto, or are some of your members located in smaller communities or one-industry towns?

Mr. Wickham: I would like Mr. Mascall to reply to that.

Mr. Mascall: Principally, it is within the Metropolitan Toronto area. We have three manufacturers in the Bramalea area, one in the Rexdale area and one in the New Toronto area. That constitutes the major base of the manufacturers. As we mention in the submission, there is only one manufacturer in Sherbrooke, Quebec, Berkley Wallcoverings, which has recently been acquired by an American organization, Imperial Wallcoverings. They are all within a 50-mile radius of Metropolitan Toronto or within the metropolitan boundary. I assume Bramalea is in that area.

Mr. Brandt: I asked that question because we are particularly sensitive to smaller communities or one-industry towns where a wipeout of a given industry could bring a community to its knees very rapidly. The same situation does not exist in Toronto to the same extent.

It always hurts if you lose an industry or if there is a shutdown, but if there are tradeoffs in the whole discussion on free trade, if there is a rationalization of certain industries, then you have to look at it as you have put it here in your brief. You have to look at an industry-by-industry comparison and see what the advantages or disadvantages are on a very specific basis. It is very easy to generalize on this question, without looking at how the hurt might impact on a particular group of people in a particular community.

It would appear from the figures you have given us that you have about a four-times advantage over the United States with respect to trade flow both ways. In other words, you have roughly \$80 million in exports. Your imports are considerably below \$20 million. The figure you give is \$15.6 million. I assume that is in Canadian funds in both instances. I believe it is on page 3 of your brief.

That being the case, and perhaps I missed this in your brief, could you give us some indication of the relative size of the industry in the US vis-à-vis Canada? On occasion, we use a 10-to-1 figure for a lot of industries, which is about the

relative population size of Canada to the US. But that may not hold with your industry based on the amount of activity you have in export sales. Could you identify the size of the industries on both sides of the border?

Mr. Brown: I find it rather difficult to give you a straight answer.

Mr. Brandt: Give me a crooked answer.

Mr. Brown: The simple evaluation is that the Canadian industries are almost obscenely strong and are cutting very dramatically into the US total market. I cannot say the American industry is entirely on the ropes, but there are several major manufacturers in the US that are for sale, in bankruptcy or closing.

As to the relative size, I would take a guess that they manufacture approximately three to one, but the figure, to a degree, is meaningless because the Canadians are taking very definite advantage of the trading situation, especially vis-à-vis the exchange.

Mr. Brandt: Why would some of your member companies not open a branch plant in the US?

Mr. Brown: Some have.

Mr. Brandt: They have?

Mr. Brown: The main advantage is that it is much more economically efficient to manufacture in Canada. We have the technology and world-class plants. What most of us are concerned about is that the tariffs will be raised on their side to match ours.

Mr. Isenberg: In other words, the present tariffs to sell to the United States cause no difficulty to the Canadian manufacturer. It is the concern that there may be a response when there is a minimum of \$80 million sold to them each year, with a potential to increase.

Mr. Ferraro: As a supplementary to that question, to what degree is the tariff a consideration? I would imagine that the fluctuation of the dollar would have a very important impact.

Mr. Isenberg: It would, except for the fabric-backed situation. Fabric-backed wallcovering is used more often in commercial installations or in kitchens or baths where you need greater protection. In those areas, there is a strong reaction from the United States.

There is a disproportionate duty, 4.3 per cent or 5.3 per cent, charged on Canadian-made goods going down, but it is 22.5 per cent or 25.8 per cent coming up to Canada. They are saying: "How can Canada be allowed to do this to us? From our position of strength, we should be negotiating that they drop theirs down." The backlash we are speaking of here is that they can institute

higher duties from the US side to block our great market in wallpapers as a retaliation for our not accepting their fabric-backed vinyl.

10:40 a.m.

A footnote you may not appreciate is that in fabric-backed vinyl, we have one manufacturer here whose concentration is on 54-inch for hotels and business establishments, corridors, etc., not for 27-inch or 28-inch residential rolls, so we do not really fill the market we are blocking. We do not manufacture to fill that market. In order to protect something that we do not have to protect, since we do not make it, we are starting to jeopardize the best part of our industry, which is the sale of Canadian-made 27-inch printed paper into the US.

Stuart Brown is holding a letter here, which I just saw this morning. It is addressed to the Honourable John D. Dingell, chairman and the Honourable James Broyhill, ranking minority member, committee on energy and commerce, subcommittee on oversight and investigations, United States House of Representatives, coming from the law firm of Howrey and Simon.

They are discussing Canadian flexible wallcovering tariff barriers. Has a copy been submitted to this hearing?

Mr. Wickham: No, it has not.

Mr. Isenberg: You will be receiving this, but what they are saying, capsulized, is in this paragraph on page 2 of their letter:

"We believe that compelling reasons support eliminating these grossly unfair duties. The Canadian wallcovering industry has matured significantly in the past few years and should not be entitled to continuation of the current Canadian protectionism. Furthermore, the present strength of the US dollar provides an enormous competitive advantage to Canadian manufacturers, irrespective of rates of duty. The striking imbalance between Canadian and United States duties should not be tolerated in a climate of free trade."

That is their submission to their own government and this is actually what sparked Stuart Brown eight months ago to organize us to look at this problem.

Mr. Taylor: To clarify this point, I notice in your brief, as an appendix, you have a photocopy of an article in a publication entitled The Wallpaper. Following on this same point, do you have any specifics of retaliatory measures or official reaction on the part of the US to your favourable position in this industry? Are any bills being sponsored in Congress?

Mr. Brown: At this point, there are no bills. All I can say is there is a very strong groundswell within the industry for this, in the trade press and at conventions and things of that nature.

Mr. Taylor: I gather your concern is that this general

mood is going to manifest itself in some overt legislation or some protectionist measure on the part of the US.

Mr. Brown: Definitely.

Mr. Chairman: They are aiming at Canada?

Mr. Brown: Unequivocally. Somewhere we have the fact that more than 50 per cent of the total wallcovering imports into the US are from Canada.

Mr. Chairman: Generally speaking, in response to Mr. Brandt's first question, if we find ourselves negotiating an agreement with the United States, and if some of the small towns in this province are in real jeopardy, we may be having to force you to move to small towns.

Mr. Brandt had some more questions.

Mr. Brandt: I want to ask a question that may be difficult to answer. If you had an absolute zero tariff both ways, what would that do to your trade? From the sound of it, you could survive quite nicely.

Mr. Brown: Yes. What it would do, suprisingly enough, is encourage the small independent distributor and the small independent dealer. The people with the clout are the large chains and they are able to buy what we call factory runs. One of the points we are trying to get across in our submission is the fact that many of the small independent people are really suffering from the trade restrictions currently in hand.

Mr. Batchelor: If I might say something here, I represent Sunworthy and we have the largest manufacturing facility in Canada. If the tariffs are put back to zero, we feel we are in a very competitive situation. The main factors in this business are design and colour, and we feel we have a very good product in those areas. The manufacturing facilities that we have right now are--I do not know if they are the best or--.

Mr. Brown: World-class.

Mr. Batchelor: They really are. If it was free trade, we are in a position where we feel very competitive.

Mr. Brandt: Let me take it one step further. If the dollar was at par and the tariffs were at zero, could you then still compete?

Mr. Brown: Very well.

Mr. Brandt: You are in a very strong position relative to the United States.

Interestingly, your industry is almost dead on the Ontario export figures to the US market of all industry in general; about 90 per cent. The last time I looked, 89 per cent of all exports out of Ontario went to the US market. You follow that trend almost

to the very percentage.

With our very real dependency on exports to the United States for our employment and industrial strength, why is it that an industry as strong and competitive as yours, which appears to be way out of line with regard to your overall strength relative to the US market, has not made a more substantive penetration of other foreign markets, the European market or other countries? You should be able to do somewhat better in export sales to those countries rather than just to the United States.

It is not healthy, even in the best of a relationship and the best of a two-way understanding between countries, to have a 90 per cent dependency on one market. This is particularly true when the United States has, I believe, about a \$150-billion trade imbalance at the moment. All this protectionist talk about stopping imports is emerging almost on a daily basis in the United States. This dependency that has built up is not only in your industry, but you appear to be in a particularly advantageous position to do something other than just sell to the US market.

Mr. Brown: There are two points there. First, our industry is based, very much like the fashion industry, on two items: colour and design. That is the easiest designation. It is now very easy for Canadians to sell into the United States, so the fashion or design and colour, the styling, is aimed specifically at one market. When we talk about the export figures here, in many ways our whole presentation has been highly conservative. Many of us feel the proportions are actually much higher.

Second, Canadians, along with other North Americans, suffer from the unfortunate currency situation. We are very vulnerable to manufacturers in Europe changing their colour and design, and actually freezing the Canadians out of the US market. They have the technology and they have the price advantage. It is just that the Canadians particularly hone in on the American fashion market.

Mr. Mascall: Also it is a freight consideration. It is a heavy burden on Canadian manufacturers shipping that far away.

Mr. Brandt: Because of the strength of our dollar relative to the United States currency?

Mr. Brown: Yes. It makes good business to sell into the United States as opposed to Hong Kong. Canadian manufacturers do sell into Hong Kong, Australia and South Africa.

Mr. Mascall: They sell into Great Britain.

Mr. Brown: In a modest way.

Mr. Brandt: I have a last question. In a perfect world, which we do not have, as you may have noticed--

Mr. Brown: Not in Ontario.

Mr. Brandt: Certainly.

Mr. Ferraro: It is getting better in Ontario.

Mr. Brandt: It is getting more imperfect with each passing day, but I do not want to get into that in this committee, because there may be some disagreement and we would not want to have this committee lunge forward in disagreement.

Would the status quo be the best of all worlds for you; if everything just remained as it was right now?

10:50 a.m.

Mr. Isenberg: I do not think so, from the distributors' point of view or the Canadian manufacturers' point of view. When Stuart says what we are actually selling into the United States may be understated, I think it is understated, but it does not reflect for you what we know is the actual size of the US market.

We probably could achieve three times what we sell to the United States if we could only reach a point where the United States would accept such an extensive flow of merchandise coming from Canada.

We are a small industry. If other industries were satisfactory to their eyes, then this would be something accepted.

What is happening is we do not cover off in manufacturing those items they want to sell, such as fabric-backed vinyls. Yet we are not allowing them to sell it in Canada, supposedly protecting things in which there are no backings made up here to encourage the purchase of such backings up here. There are no wallcoverings equal to it, which we are protecting, and we are not protecting paper because, Lord knows, they are buying all their paper goods from us.

Their reaction is what says we cannot let the status quo remain because they have a reaction. Either it is going to be positive in seeing what we do, or it is going to be negative to us in seeing that we choose to keep tariff-burdening the goods which we otherwise cannot make here.

If I might further explain for you what we mentioned about the extent of employment and encouragement of increase in employment rather than what we are now seeing, which is a declining number of people employed in the service industry selling wallcoverings.

When you have what we currently call a mom-and-pop store, which has a number of salesmen come from the distributors with books, the only investment is the books and even those are subsidized or half price. A book is perhaps \$15, \$20 or \$29. They put that book on a shelf and then each customer makes a selection out of that book. They get their percentage on that sale, and they order it without any further invested moneys.

With the buildup of chains--and we have Bapco here, which represents Sherwin Williams, so it can show you how this rounds out--the mom-and-pop store sitting on the same street as a chain

store, is not able to sell those goods which are sold by book by the distributor because it can no longer compete in price to comparable goods which are bought in bulk and put on shelves.

They are starting to decline, so the number of employees involved starts to decline. You do not have the private, individual Canadian entrepreneur involved, or his staff, or clerks, or part-time drivers, or whatever else might be involved.

What you really are seeing by our request is that if the duty were dropped, these book materials would become more competitive and therefore available to be sold within the marketplace as we really had 20 years ago.

Mr. Wickham: I would like to finish off the point.

There is another somewhat technical point and one which is not very easily observed. There are a large number of changes in the ways in which wallcoverings are made, particularly those where the vinyl, for example, or coated fabric is laminated on to something else.

As we said before, it is laminated on to paper and it comes in at a certain rate of duty. The paper in this material, or the backing, is coming under more and more consideration. At the customs end of it, it is becoming extremely difficult to decide whether material--a vinyl or whatever it is--is laminated to a paper or to a man-made fabric, or to any fabric whatsoever.

You were asking about the status quo. Even if you maintain the status quo, you would have to take a very good look at the import policy in order to adjust to make it administrable, because it is becoming increasingly unadministrable.

I do not pretend that this is a major consideration, but it is a consideration in the context of the question you asked; namely, "What would happen if we maintain the status quo?"

Mr. McFadden: I found your brief very interesting. It is a contrast to some witnesses who have been here. In a couple of the industries' cases, they portrayed any liberalization or freer trade arrangements as a tremendous danger to them, the image being that if freer trade were brought in they would be washed away by American suppliers. There is some feeling here that they are cowering, hoping that nothing was going to happen to upset them. If there was, there would have to be a long adjustment period.

You have portrayed an industry entirely the reverse. It sounds to me as though the Americans will be cowering at the thought of free trade with Canada. You have explained to us the reason for your success in the American market. You have developed a world-class industry that can compete in a very big market. I am curious about what has happened to the Americans. You said they are either going to bankruptcy or trying to find buyers. What has really happened to the American industry that has put them in this incredibly vulnerable position?

You are telling us that you are competitive with them

whether or not there are duties, or whether we are at par with respect to the dollar and everything else. What has gone wrong with the American industry?

Mr. Isenberg: The Americans have experienced something different. We can thank Sunworthy's original ingenuity even before we became involved.

In Canada Yes-You-Can Wallcoverings or the advertising campaigns we received around 17 or 18 years ago convinced our buying public that it should purchase prepasted wallcoverings. This wave was never received in the United States or in Europe. Europe continues to use a large amount of wallpaper but it is not prepasted. It is not do-it-yourself. They do it themselves but they buy paste. I still receive materials from Spain and other foreign countries where we market such-and-such product and they inevitably come non-prepasted, though Finland now provides stock that is prepasted.

The United States, based on its ingenuity with plastics, went much stronger than we did in Canada originally with C-I-L into vinyls. In the United States, they concentrated on fabric-backed vinyls, which generated 50 per cent of used wallcovering goods. Remember that fabric-backed vinyl is more expensive than paper so 50 per cent may actually have meant around 65 per cent of the market.

Those who manufactured these goods were also very large companies. We represent Canadian General-Tower here but also General Tire and Rubber Co., Pervel and Wallmates and many others in the United States. While General Tire is General Tire and Rubber, Pervel is Vemis. These are large companies that have a use or a division that could make fabric-backed vinyls.

Their concentration has been fabric-backed vinyls and we had 20 years' head start in developing ingenuity and means of identifying colour and design, of printing better and faster methodology. We saw small industries such as Waldec grow into giant vendors. Berkley started four years ago and went from \$3 million up to \$14 million in sales the following year in the United States. There is a real pocket and a hole in the United States that our manufacturers are very eager to go into.

As long as the United States does not have this response vis-à-vis unfair treatment to fabric-backed wallcoverings, they are more game than we in Canada might be, who are more conservative, to allow it to occur. They have rather accepted it for two years. If we overlook an opportunity being offered now we will experience the backlash the United States is certainly competent to give.

Does anyone have those actual figures on Berkley?

11 a.m.

Mr. Brown: It is immaterial because we have a very dynamic wallcovering manufacturing group in Canada. The Americans are on the ropes.

Mr. McFadden: You can manufacture efficiently here and product innovation is good.

Mr. Brown: Yes, the third thing is that the Canadian plants are new and modern. Many American plants are 80 and 90 years old. Technologically we are way ahead of them.

Mr. Isenberg: If I might add, sir, it is on page 10 of the brief. When the company began operations in 1982, Berkley's sales amounted to \$3.2 million, compared with \$16.3 million in 1984. It had the right way of manufacturing, which is nothing different from what we are otherwise doing in Ontario, and it marketed it in the United States.

Mr. McFadden: You may have answered this somewhere in here. What is the total employment base of your industry in Canada right now as a manufacturing industry, not just the retailing?

Mr. Batchelor: Canadian producers generate \$75 million to \$85 million and employ 650 people. The 650 people would be a true base of manufacturers.

Mr. McFadden: Then retailers.

Mr. Batchelor: I am not sure retailers are in here.

Ms. O'Neill: About 10,000.

Mr. Isenberg: What we did leave out, but which I could include in discussion, is that you will realize the sale of wallcoverings throughout our department and hardware store chains is also viable and existent. You will walk through any given store, Canadian Tire or The Bay or what have you, and see they have racks of wallcoverings. We have not included those figures.

It involves quite a number of service people in Canada. It has to exceed the 10,000 we have indicated.

Mr. Mackenzie: For some time in these hearings we have been looking for somebody who can tell us there is an upside to this issue. We have sure had the downsides portrayed very effectively in hearings before this committee.

First, I am wondering why the tariffs that give you that kind of protection are there at present. I take it your industry was not responsible for that. When there are tariffs, we usually find it they are as a result of some pressure from the industry involved. I just wonder why you have such a free ride.

Mr. Brown: We have come down from 30 per cent during the war to 22.5 per cent under the--what was the first round?

Mr. Wickham: It was not the Kennedy round.

Mr. Brown: When the General Agreement on Tariffs and Trade was originated. Then we subsequently came down to 15 under the Tokyo round.

Mr. Wickham: No.

Mr. Brown: Have I got that straight? The Geneva round.

Mr. Wickham: Then the Kennedy round.

Mr. Brown: Now it is down to 7.5 per cent.

Mr. Mackenzie: Has your industry itself ever suggested-- I have never heard of one doing this, mind you--that the tariffs should not be there?

Mr. Brown: Yes, we are trying to that very subtly.

Mr. Isenberg: We have just been to the federal government. Perhaps Mr. Wickham could advise you more directly about what was involved in this past round a month ago.

Mr. Wickham: Yes, we have made a somewhat similar representation to the federal government. On the question of the history of tariff policy, I have not been able to find out anything that is definitely written as to how it all came about. I can only surmise what happened.

First, way back just after the war and maybe even before the war, the tariffs on both pulp and paper products and on textiles were very high and they were about the same. Over the years in the course of these negotiations, the tariffs on pulp and paper were reduced more heavily than the tariffs on textiles which remained high and are still high today.

Therefore, when wallpaper was considered, it fell pari passu. That is Latin for equally, by equal stages. That is for people who are not lawyers.

Mr. Mackenzie: It got classed in with textiles.

Mr. Wickham: They were classed in with textiles and the others got classed in with that. Actually, there is no tariff heading for wallcoverings; it is for manufacturers of man-made textiles and manufacturers of natural textiles.

As you said just now, it went according to the stuff out of which it is made.

Mr. Mackenzie: I suggest that you not suggest a cut in tariffs too loudly. You might be throwing away another bargaining chip we have before we ever enter into any talks with the United States.

Mr. Wickham: No, I am not suggesting you just throw it away without--

Mr. Mackenzie: It is obvious that your concern is the protectionist sentiment because you have done remarkably well in spite of having the tariffs all your way.

It is one of the success stories that has come before this committee in the sense that you think you would be better still with a freer trade arrangement. Do you have any fear that if you further penetrate the US market, given the kind of penetration you have already as against what they are selling up here, you will not invite retaliation?

One of my colleagues mentioned the status quo argument. That is certainly what we got from the steelworkers, and part of the reason was that things are dicey enough now. If they just had a small additional penetration of the US market, they would certainly invite protectionist sentiment against the steel industry.

I take it that is not a fear of yours.

Mr. Isenberg: There are really two things we are worried about. The manufacturers in the United States are now reacting against the penetration we have. Something is needed, some carrot, to appease them. Ironically, the carrot is not in wallpaper, but in their most important industry, fabric-back wallcovering, which has no ramifications for us up here.

Mr. Mackenzie: Because we are not manufacturing it.

Mr. Isenberg: That is right, except to strengthen some of the sales which do not overlap. In fact fabric-back wallcovering is a more expensive commodity than the paper. It is more predominantly used.

Mr. Mackenzie: Are you saying we could not develop that kind of industry effectively, that we are better to stay in what we now have the expertise in and leave that as an import?

Mr. Isenberg: It has totally become apparent that we will not.

We have a unique situation in Canada in that the potential and movements of vinyl have now changed somewhat. We now have only one vinyl manufacturer in Canada. Their strength is in the commercial sale of 54-inch vinyls. This is not the same as the overlap the United States has. They may have 20,000 patterns in 27-inch vinyls available for Canadian use, whether it be in foil look or in vinyl look, for bathrooms, alcoves or entrance areas, that do not overlap what is made by the Canadian manufacturer.

Also, there may be another reason in the change and attitude towards tariffs, and that is that the history of the manufacture of vinyl here saw CIL, Stauffer, Monsanto and now Tower involved. Tower is now exclusively involved in such manufacture. This is not a tradeoff area.

Tower sells to the United States. I understand they see half of their production going in sales to the United States. We would urge that the materials, such as the backings they need to use which come from the US, could come in duty free and that the resins come duty free and not have to wait for a duty drawback on those goods they sell back to the States, but have all of their goods domestically sold with that component come up duty free.

If there is corresponding dropping of duty when they ship their goods down through the US, which is now incurring 5.3 or 4.7 per cent or something of that sort, then that is a strengthening they would require.

11:10 a.m.

Other assistance can come to mind, including federal grants for employment or duty-free import of machinery required for update. There is a host of ways in which this one company left in that field can be strengthened or protected, but that is between, I would imagine, the federal government and the company itself.

Mr. Mackenzie: Let me go back to the tariff arguments. Eliminating the tariffs is of no concern to you. You feel you can compete and you have made it very clear that you are doing well even with the tariff stacked in your favour as it is now. If we eliminate them, that may be a tradeoff that can be presented to the US in our negotiations.

If we get into trade talks, it goes far beyond the tariffs. In most industries, even those that are concerned, it is not the tariff that is the problem. The problem is the nontariff barriers and the fact that US countervailing legislation means they have to prove either a subsidy or that the industry is being hurt. They have made it very clear to us that countervailing duties are not on the bargaining table. What is to stop them or some US firm from saying they are being hurt, as you say they are, if you further penetrate that market?

Mr. Wickham: Personally, the point I would like to make is that under US law, in the case of countervailing duties or anti-dumping duties too, for that matter, they have to prove not only the existence of a subsidy and no intention from the Canadian side, as far as I can understand--

Mr. Mackenzie: Or damage, which is really what can be used.

Mr. Wickham: Yes. Then they have to prove damage, but they have to prove this in a court of law and so on. It is a legal process. Although it can be a nuisance, since there is no subsidy involved and there is no intention to give a subsidy, I do not think the Canadian wallcovering industry need worry about countervailing duties.

With regard to anti-dumping, there is no intention to sell the goods any more cheaply in the United States than in Canada. Therefore, I do not think you would run the risk of having an anti-dumping action brought against you in the US. In my own judgement, the US industry could not successfully mount a case for the levy of either countervailing duties or anti-dumping duties. From the very beginning, there would not be a case.

Mr. Mackenzie: If we entered into freer trade or enhanced trade talks or whatever someone wants to call it now, do you feel those talks should include anything beyond the tariffs?

Mr. Brown: We have some 850 nontariff barriers to trade. One of the major discriminatory tariffs we have up here is the two official languages in certain provinces.

Mr. Mackenzie: I am more concerned with what the fishermen are facing where the unemployment insurance issue is actually raised as a subsidy. There are quite a few fishermen involved in those talks. That gets down to the guts of what we are all about as a country if these kinds of nontariff barriers are to be on the bargaining table.

Mr. Wickham: I am sorry, but in your question are you asking about nontariff measures in general?

Mr. Mackenzie: In general, yes. If we enter into any talks, do you think there should be anything else on the table other than the tariff barriers themselves.

Mr. Wickham: Oh, yes, without a doubt. Our submission does not address this issue, but speaking for myself, undeniably you have to negotiate the whole range of transborder transactions.

Mr. Mackenzie: That is the very concern we are opening up if we do.

Mr. Wickham: Yes.

Mr. Mackenzie: What can you tell us about actual jobs if the tariffs are eliminated or if you have a freer access still to the US border? What are you likely to add to the 650 people involved in manufacturing? Can you give us any idea? I am presuming we get no reaction back from further penetration of the US market.

Mr. Brown: The one thing that would come out very clearly is that we are on a roll as far as manufacturing is concerned in Canada. We have the most efficient plant and equipment.

Mr. Mackenzie: Can you see doubling that figure in manufacturing?

Mr. Brown: It is really an ephemeral thing on colour and design. It is a fashion item. Currently, we are very successful at it. If we continue to manufacture with the US market in mind and continue to strengthen colour and design as a fashion item, it is one thing we are very successful at now. I cannot see any reason why we cannot be more successful at it. The bogymen is the fact that the Americans are getting fed up with our penetration of their market.

Mr. Mackenzie: I am not sure that ends with the further opening of it. That is my fear. Being very blunt and parochial, we have had literally thousands of jobs laid on the line by industry spokesmen here before us in this committee with respect to what free trade would mean to them. As I say, you are about the first one. If everybody before this committee had been as optimistic as

you people about what the future means if we open it up, we probably would have no trouble making a decision in this committee. I would like to know if you can give us some kind of idea with respect to jobs.

Mr. Wickham: I am now about to be contradictory, I am sure. As far as manufacturing is concerned, it would be unwise for us to make any predictions about increased employment. I really do not think we could say there would be an increase in employment, but we are certain there would not be a decrease. That is on the manufacturing side. What we do believe is that there will be an increase in the service end, an increase in the distributors and retail.

Mr. Mackenzie: The mom-and-pop operations you talked about.

Mr. Wickham: Again, it would be foolish to put a figure on it.

Mr. Batchelor: I was going to say the same thing. We have more than one third of the 650 people working for our company. We are now owned by Borden Co. as of last April. We belong to the WMA in the US and our concerns are real that although we have nothing on paper other than what we have recently gained there and there is nothing to say there is going to be retaliation, it is going to happen. We do belong to the association there. It is all verbal so far, but it is going to happen.

Mr. Mackenzie: So you can compete with business in a totally free market. You are totally sure of that. You cannot put a specific figure on it other than the strengthening of the retail end of it.

Mr. Isenberg: There is another aspect. We could give you an insight perhaps, although we cannot give a figure. If we are protected, if we are assured of the market being open in the US, perhaps we would find it would require a doubling in a couple of years just simply to produce what we actually could sell in the US.

There is another very strong feature. We are a relatively young and naïve industry--this sounds peculiar--vis-à-vis those persons drawn upon in the United States and elsewhere. We have open to us a lot of potential growth in sales of wallpaper, more so than other countries. This is our one departure from what Stuart has advised about colour and design. Short of having to change all designs, different combinations of print rollers can combine and create different prints and finishes. Different mixes of colours can also be arrived at. If we accelerate our knowledge of marketing, we have the whole world open to us.

11:20 a.m.

If we are opening that world, having the strength and support of reception in the United States, then you might see a 10 times or 20 times an increase in what our manufacturers employ and what they can do. One thing we forget is the natural resources, almost untapped, compared to what is available in pulp and paper.

This is an area where we have an industry which might be the industry for the world as suppliers of wallpaper. We are first learning how to get it out of our border, let alone how to get it around the world.

Mr. Ferraro: I would like to comment respectfully that this is not the first delegation I am aware of that is positive. My colleague may have given you the impression you were, but that is not my understanding.

My question was touched on by the gentleman from Sunworthy. What proportion of your membership, both in terms of the 650 manufacturing jobs and of the 10,000 you estimate, would be ultimately controlled or a subsidiary of an American or foreign parent?

Mr. Isenberg: Talking of the 10,000, the majority of the distributors are totally Canadian, 100 per cent Canadian.

Mr. Ferraro: So it is the manufacturers?

Mr. Isenberg: That is right. Many of the distributors go back for generations in doing exactly this. Many of the stores, or the bulk of stores, are in the same situation. That speaks of the 10,000 and the 1,000 in distribution. Of the manufacturers--and this is almost a double-edged sword--a greater number of them will be American if this is not corrected than if it is.

Mr. Batchelor: Very much so.

Mr. Ferraro: Currently, what is it?

Mr. Batchelor: There has been a large difference just in the last eight months. Collins and Aikman have purchased Berkley. We were owned by Reed UK and we have now been purchased by Borden's. It has been happening in the last eight months, largely because of what we are saying here.

Mr. Ferraro: What are we talking about? Is it 75 per cent of the manufacturers?

Mr. Batchelor: I would guesstimate it is 50-50.

Mr. Chairman: Thank you very much.

If I may just comment on the comments of Mr. Ferraro and Mr. Mackenzie, I think you are the first manufacturing group that has been unqualified in your support of free trade. Is that fair?

Mr. Brandt: Polysar.

Mr. Chairman: No, I guess it is not even that. In any event, it was an interesting and unique experience to hear from you and about the positive feeling you have towards the industry, whether or not we get free trade. It is certainly excellent to hear and we appreciate it very much.

Mr. Taylor is wondering whether you can use a couple of empty boxboard plants in Napanee and Trenton if things go sour for another paper industry.

Thank you very much for your presentation.

Mr. Isenberg: May we ask for a moment of your time?

I know perhaps I should ask Arthur, who has been a consultant, but if this is the case, though we had a very strong reception in Ottawa with an indication that 80 associations had preceded us and all of them were asking for enhanced free trade or free trade, if this is your finding in Ontario, is it not possible, almost overstepping or interjecting in GATT, to say, "We have an industry that is 95 per cent in Ontario which we feel is going to be in danger if changes in tariffs do not occur"?

Ontario might lead us forward, not on a holus-bolus free trade consideration but on our consideration of this industry.

Mr. Chairman: It strikes me that your brief basically is saying you would like to see our tariffs reduced no matter what. Of course, it is largely the federal government you should be looking to, but I do not see anything wrong with our considering that proposal when this committee is discussing it.

Mr. McGuigan: I would think that would be very easy if we were proceeding in the GATT negotiation, but it looks as if we are years away from a GATT negotiation.

Mr. Isenberg: It is coming next year.

Mr. Brown: It is a 10-year cycle and we are coming up for that.

Mr. McGuigan: France and Brazil have refused to come to the table, and indications are that it could be years before there are GATT negotiations. That is one of the reasons the Americans would like a Canada-US bilateral agreement. That kind of agreement will be comprehensive; it will not be on only one or two items.

Mr. Taylor: These people should not leave here with the impression that the submissions made to this committee have been overwhelmingly opposed to freer trade. The whole concept of free trade is simply a notion which is unachievable, as you know. My impression of the submissions is that, on balance, they are for more enhanced or liberalized trade with caveats. I do not want, from my point of view, an improper perception of submissions we have heard.

#### MANUFACTURERS LIFE INSURANCE CO.

Mr. Chairman: Representatives from the Manufacturers Life Insurance Co. have been waiting patiently in the wings here. Members of the committee received copies of Manulife's brief last week. It is hoped they have had time to review the brief.

From Manulife we have Elvon Harris, senior vice-president; Joe Pietroski; and Mrs. Jalynn Bennett.

Manulife recently made a very wise move in that it is moving a large part of its operations into the region of Waterloo. We welcome you.

Mr. McFadden: Here and in Kitchener.

Mr. Chairman: That is right. If members of the committee do not have copies with them, Mr. Arnott has extra copies.

Mr. Harris, do you wish to peruse the brief or to move right on and assume we have read it?

Mr. Harris: I will assume you have read it and get right into some general comments. I appreciate the partisan reception here from your region.

On behalf of Manufacturers Life, I would like to thank you for the privilege of appearing before the committee. I would like to elaborate a bit on my partners here.

Joe Pietroski is our vice-president and secretary. Joe has had a lot of involvement with the legal and regulatory aspects of Canada-US trade. He is chairman of a committee made up of trade associations, the Canadian Life and Health Insurance Association and the American Life Insurance Council, that deal with US-Canada life insurance issues. He has had a lot of experience there.

Jalynn has been a vice-president in our investment department and brings us a capital markets perspective; she also has been a member of the Ontario Economic Council.

From my own standpoint, I ran our US operations out of Canada for about 10 years; I was senior vice-president of international operations. I have taken an interest outside the company as a member of the US-Canada task force. I served with David Grade in looking at those issues. I am also chairman of a subcommittee on financial services for the International Business Council of Canada. I have a deep interest in the US-Canada markets and interest in securing access to all foreign markets.

This morning I would like to speak specifically on behalf of the Manufacturers Life Insurance Co. and talk about our case for free access. Maybe by implication, I could represent some of the other large life insurance companies in Ontario who do business internationally; they are a substantial number.

11:30 a.m.

During the past year, there has been a lot of emphasis placed on international trade or on trade between the United States and Canada. Most of the focus has been on securing access to the US market or on finding a way to create more jobs in Canada.

If there were easy solutions to the debate, we would not be sitting here this morning. We realize the complexity of these issues, but we feel that free access to the US market has been very beneficial--in fact, critical--to our own success; so I would like to go on record and make the case that free access is very

important to us. All that I say today will be drawn from the brief, which has been circulated to you in advance.

I will start by saying that Manufacturers Life is a federally chartered company. We are now the largest life insurance company in Canada in terms of worldwide assets. If you look at the North American scene, the US and Canadian companies combined, we are the eighth largest in terms of premium income.

Since we entered the US market in 1903, it has grown to represent 56 per cent of our total business in force, and 36 per cent of our total company assets are represented in the United States from US business. That has led us to be the largest Canadian institutional trader on the New York Stock Exchange; so our destiny is very much intertwined with that of the United States.

I do not want to limit my comments to the United States. Access to the US market has given us the asset base to become competitive on a worldwide basis, but our interests go beyond the United States. We operate extensively in the Pacific Rim countries, the United Kingdom and the Caribbean, and we are looking to increase our market share in those areas, although it would be pretty hard in Hong Kong. We have 40 per cent of the individual insurance market in the colony of Hong Kong.

We also have a large share of the market in the Philippines. We have a five-year-old company in Singapore, and we just established a new joint venture in Djakarta, Indonesia, in January 1985. We are currently talking to China, South Korea and Thailand, and at some point we hope to talk to Australia. Much of our focus on expansion is now in the Pacific Rim area, and we feel we are able to do this because of the large asset base we have from our operations in the United States.

You can see that we do have a deep commitment to international expansion, and we believe, as I think I mentioned, that to maintain that competitiveness we have to have free access to the US market.

You could say I am not here to complain about something we do not have; I am here to ask your help in securing the access we do have. We would like to see the status quo in our relationship with the United States, because I think both the US life insurance companies and the Canadian life insurers are reasonably happy with the access we have to the markets. We have a heavy presence in the United States, and the 11th largest life insurance company in Canada is the Aetna Life Insurance Co., a US company that is located here in Ontario.

We also believe that as a result of this free access of the trade between the two countries there are many benefits to Ontario, both tangible and intangible. We talked about jobs. The Dupré task force reported 44,000 jobs directly related to administering insurance, both life and casualty. I cannot say what percentage of those jobs is attributable to the United States, but to look at our own situation, we have about 2,000 employees in our Bloor Street head office, which is our worldwide headquarters, and

1,100 of those jobs are directly related to our US business. If we were not in the United States, we would not employ those 1,100 people.

We look at the fact that there is a ripple effect. We are heavy consumers of the infrastructure in Ontario: legal, accounting and suppliers. I cannot tell you what the ripple effect is, but a lot of jobs there are secure because of Canadian companies operating in the United States. We feel that if we want to continue to be successful as an international competitor, there are a couple of things we need. We have to have a strong infrastructure, and we have to have a strong and dynamic capital market here for us to operate successfully.

If I look at the capital flow into Ontario, we invest money in Ontario far beyond the business we do in Ontario. If I look at our real estate holdings alone, the book value of our real estate holdings in Ontario is \$241 million; it is \$500 million in Canada, but \$241 million of the book value of those real estate holdings is Ontario real estate.

I do not think I have to belabour the point any longer that free access to the US market is very important to us if we want to maintain our status as a world-class competitor and that the benefits we bring to Ontario and to the company are disproportionate to the Canadian market and to the Ontario market; they depend on a worldwide market.

I would like to come to the two specific recommendations I have for the select committee.

Operating in the international arena and content as we are with our free access to the US market and with the fine relationship between the two insurance industries, we do not operate in a vacuum. We are not isolated. We look at some of the protectionist sentiment in the United States and particularly at some of the legislation that is going forward.

There is one bill, the Danforth bill, that gives the President of the United States the power to impose sanctions cross-sectorally if he is unhappy with something that has happened in one sector. For example, if Ontario or Canada were to impose nontariff barriers or unfair taxation on US life insurance companies, the President of the United States could do something about trucking, soft lumber or some other sector.

We are quite concerned that Ontario look very carefully at our own environment here and make sure it is hospitable for US companies operating in Ontario, because we are afraid that if we start to try to solve some of our sectoral problems by taking punitive action against other sectors, it could come back on us.

Mr. Taylor: You would be a casualty then.

Mr. Harris: We would be a casualty.

Mr. Taylor: And not insured by your own company?

Mr. Harris: That is right. And unlike your other witnesses, we would be off the walls.

We would ask the committee to look very carefully at the total legislative scene in Ontario and to try to create a hospitable environment for US concerns.

The life insurance industry is a very cost-sensitive industry. We are competing on internal cash flow. It is a product pricing war all the time in the United States; we find this as a big insurer there. If any actions were to give us a disproportionate disadvantage to the US companies, it could pretty well put us out of business in the United States.

Our other recommendation is that in the federal debate we believe Ontario should support a position of free access to the US market and free access to the Canadian market for the life insurance industry. Again, this is a healthy sector, which is prospering from this type of trade. We would like Ontario, in its dealings with the federal government and in any dealings you have on this issue, to recognize the significance of the life insurance industry here, what it does mean to Ontario, and to be strong proponents for us in that debate.

We find Ontario to be a very good home; it is a very good base of operations for any life insurance company that has an international perspective, and we would like to keep it that way. As you submit your brief and make your final report, I know you will assess it. There will be some people, like ourselves, who will welcome the trade; there will be some who will be adamantly protectionist, feeling they are going to lose. As you submit your brief on behalf of the internationally minded life insurance companies in Ontario, I hope you will put us in the column as the winners, who would welcome and support free access to the US market and vice versa.

That is all I have to say as opening remarks. I will now open this to questioning from the committee.

11:40 a.m.

Mr. Knight: Mr. Harris, the penetration of your company, and I suspect of the entire Canadian industry, into the American market has been quite significant. I suspect that there is a relatively unfettered market there, or that the ability to enter the American market is relatively unfettered for you.

Mr. Harris: Yes.

Mr. Knight: I am surprised at the relative decline of the percentage of the American companies, and there are some very big and strong American companies, in the Canadian market. I wonder what the reason for that would be. Do we have some significant barriers to those companies entering our market?

Mr. Harris: There are some irritants, and I will deal with them. But first, if you look at our own company's expansion, our business is growing much more rapidly outside Canada; the

markets have been better in the United States and in Asia. I would think some of the American companies operating in Canada might find the same thing. The Canadian market has not been a buoyant market for life insurance during the past few years, and we would find them growing more rapidly in other parts of the world and probably putting fewer of their investments into their Canadian operations.

There is one barrier. A few years ago an American company coming into Canada could buy control of a Canadian life insurance company--for instance, at Aetna--and you saw some Canadian life insurance companies that were purchased by American companies. In the past few years that has been closed off. An American company cannot come in and buy a Canadian life insurance company. Therefore, the alternative is to come in, start from scratch and open branch operations, which is a long, slow, painful process. You would want to see a very good return at the other end of the rainbow if you were going to make that kind of investment.

I offer those to you.

Mr. Knight: That, of course, is the irritant you are talking about from the US perspective.

Mr. Harris: Yes.

Mr. Knight: Is it not a reality of free trade negotiations that irritants will be removed?

Mr. Harris: Yes.

Mr. Knight: What will it do to your domestic operations at that point if they are able to come in unfettered themselves?

Mr. Harris: We would not have any fear there.

Mr. McFadden: This is a good morning for good-news stories. We do not always have so many people who are so buoyant and doing so well internationally.

I am curious to know the reason our life insurance companies have been so successful internationally. Obviously, we are successful in our own domestic market; on page 5 you illustrate that. Can you tell me the reasons for this success both domestically and internationally? It cannot be currency. There have to be a lot of other reasons for it, and I wonder whether you would outline briefly to us what the reasons have been.

Mr. Harris: Let me give you a couple, and maybe my colleagues can add more. Basically it is a strategic issue that 90 years ago Manufacturers Life and many Canadian insurers decided they wanted to look beyond Canada and establish operations. We established our first operation in the United States more than 90 years ago, got going with that market and pushed it as a major strategy of the company. With the economic growth in the United States, it blossomed for us.

Similarly, we followed the old British Commonwealth and decided, as many Canadian companies did--Sun and others--to open

operations or branch operations around the world in Commonwealth countries and where the British flag was flying. We did that many years ago, and it got us going internationally. We had to retreat with the war and with various nationalistic policies internationally, but we went back to Hong Kong and a few bases where we had been for a long time and we did very well.

I would say one of the main reasons was that strategic decision to expand 90 years ago; it turned out to be a right strategic decision.

As Canadian companies, we are also very good at investing our money. Canadian investment expertise has been outstanding in the world. As we get large flows of money in from various countries, we have been able to do that very successfully and we have been able to translate it back into product pricing that has been very competitive.

If you take Manulife in the United States, we go toe to toe with the US companies in competing for what we call deferred compensation plans and group schemes for Fortune 500 companies. We do get a substantial amount of that business because we are able bring a good investment return into our products.

Those would be two reasons.

Mr. Pietroski: The history of the industry's financial integrity is another reason that Canadian companies do so well in the United States. We have never had a company unable to pay one dollar's worth of benefits that were promised. Unlike what we are going through right now with the banks and the trust companies, fortunately the insurance companies in Canada have had a history of financial integrity and solvency. As long as that continues to be the case, we expect it will work to our advantage as well in the future.

Ms. Bennett: Two other observations: In the first place, I think you have had a tradition within the Canadian financial services sector of establishing small companies that are soundly regulated and that proceed to prosper and grow. Smaller companies do tend to get larger, all other things going their way. I think it would be fair to say that in the United States you have a multiplicity of small firms; small banks, small savings and loans companies and small insurance companies. The Canadian models have tended towards nationally competitive larger agglomerations. By and large, you tend to have more larger life insurance companies in Canada vis-à-vis the universe of smaller ones, whereas in the States the system is to some extent driven by enormously big ones and then a plethora of medium- and small-sized ones.

For whatever reason, Canadians have always been very interested in life insurance as a product. You just look at the data on savings and there has been a tendency in Canada to put savings dollars into life insurance companies and products. From that you have created a larger and competitive market base.

The second thing is that the characteristic of the United States market is it is one in which there are many consumers with

a number of different interests in terms of savings products and vehicles, and for a company like Manufacturers it has been very easy for us to target specific market segments and to specialize within the general life insurance and annuity market. We do not try there to be all things to all people. We have a very targeted approach, I think it would be fair to say, and it has proved to be a very successful strategic positioning issue.

If you talked to other Canadian life insurance companies, I think you would find that they also have tended to target and to look at specialized segments of the marketplace in the States. So it is a question of the export of specific skills as opposed to trying to blanket that massive American market, and it has proved to be a strategy that has worked very well for many Canadian life insurance companies that choose to be competitive abroad.

Mr. McFadden: Manulife effectively took on the world back at a time when it was not really fashionable for Canadians to do so. Through our national policy we tended to want to protect ourselves. You took the reverse route and went abroad with good results.

Ms. Bennett: It was also without a lot of government assistance.

Mr. McFadden: I take it, though, that dealing with government and the regulatory environment in Canada with respect to the liquidity of companies, licensing arrangements and the regulatory framework seems to have helped you in the sense that it developed credibility for your company and other Canadian companies that they were good companies in the view of the regulators in the United States and other jurisdictions. Is that correct?

Mr. Pietroski: Yes, that is always a positive note. In our dealings with government regulatory agencies, if the issue has to do with the solvency of our industry or of our company, it is very positive to be known to be regulated under a system that has integrity and is well respected for its ability to do that. It is very often a plus so long as you are not overly regulated.

Mr. Harris: I would like to add one point to this. If you look at the future, you hear about deregulation and certainly you read about it in Canada in the green paper. Under the federal Canadian and British Insurance Companies Act, we are limited to businesses that are reasonably ancillary to the life insurance business.

We find that in the foreign jurisdictions where you compete, more and more of the insurers are getting into a variety of products and services that we could not offer under the strict interpretation of that. So we are pushing the federal government very hard to make sure we can have national treatment in foreign jurisdictions and be able to expand beyond what it would consider reasonably ancillary to the life insurance business, because it is important that we be regulated in that fashion.

Mr. McFadden: I wonder if I might ask one final question in regard to this. I know you are not speaking for all the other

companies in the life field in Ontario or Canada. Can you give us any information this morning on whether your brief would have general support from other life companies, or is there division, as far as you understand, between companies of different sizes or from different regions?

11:50 a.m.

Mr. Harris: One thing the International Business Council of Canada did was to send out questionnaires to the insurance industry to try to get the viewpoint of the various companies on how they would feel about freer access to the US market. The results we got back were that the large companies who are now operating internationally would certainly support free and freer trade.

Some were a bit apathetic. They said: "We already have free trade, so what is the change? Why should we be concerned?" But some of the smaller companies that are not operating internationally right now would be more protectionist, saying that it might be hard for them to compete in the United States market and they would fear the competition coming this way.

So the very small companies would be more protectionist, while most of the larger companies would welcome freer trade.

Mr. Brandt: Free trade means a lot of different things to a lot of different people, depending on what group you talk to, but it would appear that you have a form of free trade, as it were, at the moment, from your description of how your industry operates.

Mr. Harris: Yes.

Mr. Brandt: Would you say that your principal concern is really to maintain what you have now and to avoid further trade impediments to access to the United States market, in that you are concerned about the protectionist voices coming from United States spokesmen that have been reported on with fair regularity in the media?

Mr. Harris: Yes.

Mr. Brandt: Would you say we have what would be described as a level playing field between the United States and Canada as part of the general description of the free trade environment in which you operate now? When I say "level playing field," let us take as an example employees who operate on both sides of the border. Are there difficulties with respect to having your people operate in the US or US people operate in Canada?

Many companies have complications. As an example, my colleagues in the New Democratic Party have talked about the possibility that plants in Ontario may be rationalized, to use the soft word, under some form of trade enhancement. Should the employees of that plant have the first right to be employed in an American plant to which ostensibly a branch plant would move?

Can you give us a little more amplification, if you will, on the question of those other impediments that may be there, if they are there at all?

Mr. Harris: Do you mean to us or to American companies coming in?

Mr. Brandt: Both. I am looking for the level playing field, because when you talk about free trade, trade enhancement, market accessibility--all of those things--you have to look at a broad range of other factors, even taxation policy.

Mr. Harris: I mentioned that one impediment coming this way is that an American life insurance company cannot buy and control a Canadian life insurance company. Americans would say it is not a level playing field in that regard, so they would view that as an impediment.

As far as employees are concerned, we do have to go through all the usual immigration procedures that you go through to justify bringing people across, but to this point we have had no problem in doing that; we have been able to get all the people across. We bring a few Americans across to work with us. We send Canadians across to the United States to run our sales operations and to work with us in the area; we send them to the United Kingdom and around. So far we have not had any major problem in the movement of personnel.

Mr. Brandt: Does that work the other way as well with Americans coming into our market?

Mr. Harris: Yes. You have to justify it, but we have been able to get all the Americans in here that we need.

Mr. Brandt: What if you had a salesman out of Canada who wanted to sell in the US market? Are there not restrictions with respect to--

Mr. Harris: He would have to be licensed. We have salesmen in Windsor, for instance, who sell a fair amount of business in Detroit, but they have to be licensed with the state of Michigan in order to sell business there, because it is a state-regulated industry.

Mr. Brandt: But there is no difficulty with his or her getting into that market to sell, then?

Mr. Harris: I am not sure how hard it is to get in. You have to go through licensing procedures, and we have several who have done that.

Mr. Brandt: But there are immigration complications as well.

Mr. Harris: Yes.

Mr. Pietroski: A state in the US will generally grant a nonresident agent's licence upon application to an agent who is

not a resident of that state as long as the agent comes from a jurisdiction that offers reciprocity to that state's agents. That is generally true. Ontario, Michigan and other states do offer reciprocity. If is the agent is from Quebec he will have a problem in a number of states, because Quebec does not offer them reciprocity.

Mr. Brandt: This question may be more applicable to the general insurance industry than to life, but I have heard that there are major problems in the insurance industry generally speaking, which you may or may not be able to comment on, as it relates to other jurisdictions, primarily European, where they do have different rules with respect to asset requirements and those kinds of things. Does that relate at all to your industry as well in terms of competition, other than in the US market?

When we talk about free trade or trade enhancement I think we have to look at the world market on occasion in addition to just the US market, because other reciprocal arrangements could be developed, either through the General Agreement on Tariffs and Trade negotiations or through other reductions in tariffs or trade impediments that could occur. Do you have problems with those European markets? I see you nodding yes.

Mr. Harris: I can pick up on one thing. As you have probably been following, President Reagan has been pushing hard for another GATT round and he wants to include financial services in it. Right now financial services is not included in GATT in any major way. We would welcome getting financial services in and having some context for negotiating a set of international rules around the right of establishment in a country.

Currently we cannot get into South Korea. South Korea takes the position that its insurance industry is reasonably undeveloped and that if it were to let foreign competition in it would swallow up its domestic companies. They are saying, "In five or six years we may let you in, but we want to protect our local companies and give them a chance to establish themselves before we let you in."

Many countries have regulations on how you invest your money. Some say you have to invest all of your premium income in the country, or there are currency-control problems on how much money you can repatriate. Particularly as you get into the Pacific Rim area and some of the Organization for Economic Co-operation and Development countries, there is a series of constraints on operating an insurance business.

Mr. Brandt: How about the more sophisticated jurisdictions, like Europe? I wanted to get at that, because I have heard from time to time--I am partially repeating myself--about problems with your industry being undercut, as it were, on premium price by a European insurer who does not have to operate according to the same ground rules by which you operate.

Mr. Harris: All we can do is to speak to the places where we are. The UK has a very free market; it is a competitive market. We are competing on price, but we have been able to compete in that market. There are no other European markets that we are in right now.

Mr. Brandt: But do German, Dutch or Swiss financial operators operate in Canada?

Mr. Harris: Yes.

Mr. Brandt: But they do not operate under the same rules as Ontario or Canadian companies; that is what I am trying to get at. Is that not correct?

Mr. Harris: That is not my impression.

Mr. Brandt: Are they not allowed to operate under somewhat freer financial restrictions with respect to their asset base and their capacity to cover policies than Ontario and Canadian companies are?

Mr. Pietroski: The general rule in Canada and the United States is that life insurance companies--I am not sure about property-casualty companies--must maintain assets sufficient to meet their liabilities in the country in which they are doing business. So we as a Canadian company doing business in the United States must maintain assets there that are sufficient to meet all our liabilities there. The same applies to a nonresident company doing business in Canada. To that extent we are on an equal playing field.

Our premium rates in the life business are not subject to pre-approval by any regulatory agency, so we can set the most competitive rates we can live with and compete on the same basis as foreign or Canadian companies. That is true in the US and it is true in Canada.

I am not aware of any competitive advantage that foreign companies would have, whether they are from Europe or the United States, either here or in the US.

Mr. Brandt: So you have, then, almost a free trade arrangement on the world market, other than in places you have described, like Korea or perhaps some of the Orient, where they are protecting their markets because of the relative immaturity of the industry.

12 noon

Ms. Bennett: I think it would be fair to say that in some European jurisdictions there are barriers to the entry of foreign life companies. I do not know that there is discrimination against Canadian companies per se. For the sake of argument, I know that in France and West Germany there are substantial barriers to entry. I cannot be specific about it.

Mr. Harris: We did an international expansion study that looked at all the countries outside North America to decide where we would want to expand. One thing we looked at was barriers to entry. We found very few countries where there are no barriers to entry.

In many of the Organization for Economic Co-operation and Development countries and the Pacific Rim countries, there are

some barriers to entry. There are very few places where we have the unlimited type of relationship we have between the United States and Canada. Hong Kong would be one and Britain would be another example of places where we have free access.

Mr. Brandt: Would there be reciprocity in restrictiveness among West Germany, France and Canada coming the other way? I am trying to look at whether we are fair in the overall sense of the word.

We heard from the wallcovering group. I think you were here during part of that previous presentation. At the moment, the tariffs are particularly advantageous to their industry. It is almost four to one if you look at the trade both ways.

It does not always cut like that, but there are industries that have an advantage at present because of anomalies in the General Agreement on Tariffs and Trade negotiations. There is roughly a 25 per cent tariff on the material coming into Canada and only a six or seven per cent tariff for the same material going the other way. That is clearly upsetting to the United States.

If you are going to be a fair trader, you have to play on a relatively level playing field. In your industry, it appears that those things have been removed and that you have market accessibility on a relatively fair basis. You do not have a problem. However, from what I have heard I have a feeling that is not necessarily true of some members of the European Community, excluding Great Britain. Then there is the Orient, Hong Kong and so forth. I think I have my answer.

Mr. Mackenzie: Going back to the first question Mr. Brandt asked, there is pretty well an open arrangement back and forth between Canada and the US at the moment. With the caveat that you are worried about some other industries and about what protectionist sentiment might do, you are arguing that the status quo would keep your business happy.

Mr. Harris: I do not want to be traded off against raspberries or pork.

Mr. Pietroski: There is one barrier on ownership of Canadian life companies. One of the proposals in the federal government's green paper is not to permit ownership of a schedule C bank in Canada by a nonresident life company. The nonresident companies filed their brief and made their submission last week, protesting they were being discriminated against. We support their concerns about that. No case has been made as to why they should not be allowed to own a schedule C bank if we are to be allowed to own a schedule C bank. Those irritants come up every once in a while.

Mr. Mackenzie: The percentage of ownership of a banking institution enters into that as well.

Mr. Pietroski: A schedule C bank could be owned by more than 10 per cent. That is a new concept; that is right.

Mr. Mackenzie: There is a move towards deregulation in the United States that is quite obvious and we hear a fair bit about that here as well. While we were in Washington, we had the failure of three, fair-sized savings and loan organizations in Virginia. That surprised a number of people. In the event we are entering into talks, I wonder whether you can see the US arguing about the regulations we have up here and the fact we do not seem to be moving as rapidly as they are in deregulation. Perhaps they will stop that as a result of the failures. However, could that be cited as one of the irritants or problems? In other words, could we end up finding that some of our regulatory authority and power over our financial community is being debated in the course of free trade talks?

Mr. Harris: It could be. I think we would argue strongly for national treatment, but I guess we had a few surprises here, too, did we not?

Mr. Mackenzie: Where do your sales occur in the US? have you any idea? Is it right across the United States or is it basically in the border states? Do you have any picture of that?

Mr. Harris: It is pretty well right across the United States. We have heavy representation in California; a large percentage of our sales comes from there. A fair percentage of our sales comes from the northeast corridor, from Philadelphia up to Boston.

Mr. Mackenzie: So you have some concentration in the border states.

Mr. Harris: Yes. We have a strong sales organization in Hawaii. We are not long established in the Midwest, so that is a smaller percentage.

Mr. Mackenzie: Do we have any figures here on the dollar share of the US market and the US-dollar share of the Canadian market?

Mr. Harris: If you took our company's share of the US individual insurance market, it would be something like 0.6 per cent, because that is a huge market.

Mr. Mackenzie: In the total market, though, we do not have figures on the actual dollar share that the US has of the Canadian market or that we have of the US market?

Mr. Harris: We do not have it in this brief, no. The figures are on file with the Canadian Life and Health Insurance Association.

Mr. Mackenzie: Have you any idea how it would stand?

Mr. Pietroski: The last numbers I saw indicated that the Canadian life industry had a much smaller share of the US market than the US companies have of the Canadian market. However, in dollar terms, my experience would lead me to believe that the Canadian companies earn in the United States a life premium income

in substantially larger dollar volumes than US companies do in Canada, because Canada's market is much smaller. There are 160 total-life companies vying for business in Canada, which has only the population of California.

Mr. Taylor: I am getting the impression that everything is okay the way it is. Mr. Mackenzie has elicited from you a sort of stand-pat position, which causes me some--

Mr. Mackenzie: With a caveat.

Mr. Taylor: With a caveat, whatever that is. I understand the meaning of the word but not the substance of it.

I get a different impression: that you are a dynamic, aggressive, internationally minded organization supporting a further GATT round that would open other markets in a fairer way.

Mr. Harris: Right.

Mr. Taylor: That being so, you have expressed some concern that you might be a casualty, not because of the lack of fair trade in your industry between Canada and the United States but because of a reaction arising out of another sector in our economy.

Do you have some concern with regard to the existing protectionist mood in the United States, which might tilt the so-called level playing field? I am trying to get from you some thought on whether it is possible to maintain the status quo or whether you feel there should be some initiative or some posture of this province with regard to currently possible talks on trade issues.

12:10 p.m.

Mr. Harris: If you take all the protectionist sentiment that you do see in Washington and the fact that when Congress came back from the summer recess it pushed the tax issue aside and said, "We have to deal with the trade issue first," we would have to have our heads in the sand not to feel it is going to be very hard to maintain the status quo.

The most dynamic thing we can do, which we hope is going to happen in the next week or so, is to give a signal to the United States that we are willing to enter into a round of negotiations to try to negotiate a fairly comprehensive context for settling trade issues between the United States and Canada. It would be my hope that if we could do that, if we could negotiate that type of arrangement, if the United States came after Japan, South Korea or other trading partners, we could have developed some type of relationship that would insulate us from the broad protectionist initiatives in the United States and give us a context for negotiating sectoral issues between the United States and Canada. It would give some of this a chance to simmer a little longer rather than coming under this structure.

Mr. Taylor: You would support an initiative towards developing freer trade or fairer trade--

Mr. Harris: I heard a statistic this morning that 75 per cent of Canada's trade is with the United States. The big issue would be how to secure that 75 per cent. Within that, there will have to be some tradeoffs.

Mr. McFadden: Ninety per cent of Ontario's trade is with the United States.

Mr. Harris: Yes. We would say, first, we have to get into negotiations and try to find a way that preserves that access. All we in Ontario can do is be sensitive to the US position, and yet be intelligent in the type of tradeoffs we get involved in. We cannot just say: "Everything is fine now. We are not going to negotiate."

Mr. Taylor: You are saying you would support talks initiated by Canada?

Mr. Harris: Yes.

Mrs. Bennett: The ultimate message we want to leave with you is a slightly enhanced sense of awareness about the life insurance industry from the Ontario and Canadian perspective. We think it is important for you to hear from people who have benefited from the general trading environment.

As an industry, with certain exceptions, we have had free access to the American marketplace. That has stood us in good stead and has brought some positive benefits, macroeconomically, to Ontario if not to the country. We hope our industry will continue to have free access, recognizing that within the negotiations you have some very difficult problems to face. We do not want to be inadvertently caught because we were not aware of where we were.

Mr. Chairman: Do you have any concerns about interprovincial problems?

Mrs. Bennett: The only comment I would pick up arose from the discussion we were having earlier about licensing of agents in other jurisdictions. The committee should be aware that licensing of life insurance agents is a provincial jurisdiction as well, and from time to time in this country we have faced interprovincial barriers to trade. In our industry that would be a concern, but obviously we are more concerned about access to the US market. Interprovincial barriers to trade, differences in the regulatory framework, are a major issue.

Mr. Chairman: I appreciate your coming to give a presentation. You have certainly enlightened us.

It is drawing close to the time when we should have a freewheeling discussion as to what matters we want Mr. Traficante to touch on in preparing a draft for our interim report. Last week, we were looking at a timetable. He would like to have this discussion in the near future. I am suggesting we might consider meeting next Friday morning. Generally, we have tried to keep Fridays clear so that we can be doing constituency work. It is not

absolutely necessary that he hear from us by next Friday. We have been whispering about Monday and Tuesday of next week as well. Apparently, we have hearings scheduled for Monday. We may have some time on Tuesday. It would be preferable if we got it in this week.

Mr. Mackenzie: What time are we coming back? What is the arrangement?

Mr. Chairman: We come back Thursday night from Sault Ste. Marie.

Mr. Hennessy: Is that next week?

Mr. Chairman: This week. We are going to Sault Ste. Marie Wednesday night and coming back Thursday night.

Mr. Brandt: What does the agenda look like as to when you anticipate we will complete Kitchener on Wednesday?

Mr. Chairman: Kitchener will be through by five. We could catch a bus to the airport to catch a seven o'clock plane, I believe.

Mr. Brandt: As I indicated last week, I cannot go on to Sault Ste. Marie, but I have another complication now with my scheduling. I will have to drive to Kitchener taking my car because I am going in the opposite direction.

Mr. Chairman: Because of situations like that and anyone else who cannot come to Kitchener, it is probably unwise to schedule any of this to occur in either of those cities.

Mr. McFadden: I could be in Kitchener, but not in Sault Ste. Marie.

Mr. Mackenzie: Friday morning might be a good idea if we are coming back here Thursday night in any event.

Mr. Brandt: I cannot be here. I will be at the other end of the province.

Mr. Hennessy: Is it not better to give the members a week in advance to make their own arrangements? Sometimes a person gets stuck for the whole week. If you make it for the following Friday, then at least people know and they can make their agenda to take care of their own business. This would be better than saying this week we are going to have it this Friday rather than the following Friday. Then a member would have two weeks to make arrangements for what he has to do. If they have somebody to meet, they can meet them sooner and get that over with.

Mr. Chairman: The following Friday takes us to October 4. We have to have our report done by October 10.

Mr. Hennessy: That is all right. At least if we meet that Friday--

Mr. Taylor: Friday is okay for me, but I think it is important that all members be present at such a session. It is critical to get the input from all the members who will be signing the report to be at the session. If there is some concern that we may not have a full membership on Friday, would it be possible to schedule something for the first of next week? Would it be possible to sit later in the day or maybe an evening even?

Mr. Chairman: How about Monday evening then?

Interjection: Or just after that.

Mr. Chairman: On Monday afternoon we have the Urban Transportation and Development Corp. for two hours and that is all we have.

Mr. Brandt: If we ran that group from two to three or shortly after--

Mr. Chairman: Apparently, they are expecting two hours.

Mr. Hennessy: Monday morning.

Mr. Chairman: No. In the morning we have the Ministry of Industry, Trade and Technology.

Mr. Knight: What do we have on Tuesday? I do not have anything pencilled in right now at all. Is it free?

Mr. Chairman: A lot of invitations are filtering back to us now that the issue is on the front page, and that is part of the problem.

Mr. Knight: Monday night is a problem for myself unless we met directly after--

Mr. Taylor: Mr. McFadden has pointed out that the Miller dinner is Monday evening as well.

Mr. Knight: That was not my problem.

Mr. Taylor: I appreciate that. But there may be some members of the Conservative team who will want to go to that.

Mr. Chairman: Why do we not schedule it for Tuesday then and we will inform Mr. Arnott to keep that free?

Interjection: What part of the day?

Mr. Chairman: Tuesday morning. We could still hear from a delegation Tuesday afternoon.

Mr. Mackenzie: There are two things, just to put them on the table. I understand Mr. Kelleher will be in talking to the Premier (Mr. Peterson) tomorrow.

Mr. Chairman: Today.

Mr. Mackenzie: Today is it? It may not be possible, but I wonder whether there was any thought to having him speak briefly to this committee.

Mr. Chairman: Apparently he is going to Haliburton for a private briefing. I had misunderstood that this morning. I presume this is because the Prime Minister promised there would be advance notice of any decisions.

Mr. Mackenzie: I have a slightly uneasy feeling shortly before announcements are made at the meeting with Mr. Kelleher and the Premier. Also, I was away for a couple of days on the weekend, but I gather the appointment could be announced of a special adviser to the Premier. It makes me wonder at times just exactly what kind of a role this committee is going to be playing in any interim report or any recommendations we make.

Mr. Chairman: Are you suggesting then that I invite Mr. Kelleher to--

Mr. Mackenzie: I am just wondering whether the views of this committee are going to carry as much weight as those of either Mr. Kelleher or a special adviser in meetings with the Premier.

Mr. Taylor: I am sure Premier Peterson is waiting with bated breath for the report of this committee.

Mr. McFadden: The problem we have right now, and I do not know what we are going to do with it, is that we have an interim report that we are talking about coming up with, and then the final report next June or July. The question we are going to have to look at next week is, what exactly are we going to talk about in an interim report. That is number one.

Second, as you will recall, we talked a couple of months ago about the deadline we were working under. My worry at this stage of the game is that the ground is moving so quickly that October 10 could be slightly premature in the sense that, if a major announcement is made by the federal government in the next day or two, next week or whenever it is going to be made, we are probably going to want to come to grips to some extent with the terms of reference and so on and take some advice ourselves about Ontario's situation in respect of that whole proposal for negotiations.

My worry would be that to get stuck with an October 10 deadline, given what is happening right now, could mean either our report would be meaningless very rapidly or we could be totally out to lunch in what we do. We could be in error, irrelevant, or whatever else might happen.

I wonder whether it would not be advisable in view of the time horizon we seem to be working under--and as I understand it, witnesses are wanting to come here and everything else--to seek guidance from our respective House leaders and perhaps from the Premier, to see whether we could not delay the actual filing of the report with the Legislature even a week or two so that we can take the latest new developments into account. I suppose there could be a major new development every week, but it seems to me

that whatever announcement might come out of Ottawa, if it is in favour of an opening with the United States, is such a huge, major and significant development that we as a committee should consider its impact to some extent.

I question whether October 10 is realistic at all, unless all we are going to do is come up with a one-page report to say we want to go on, it is very confusing and it needs a lot of study. If that is all we are going to say, then we could write it today. But if we are going to do anything more substantive than that, it seems to me October 10 is unrealistic.

Mr. Mackenzie: My only difficulty with that is that it almost presupposes that whatever federal position is taken is it, and we can only react to it. I am not sure that is the case.

Mr. McFadden: My point is that even if we do not accept the Ottawa suggestions, I doubt whether we are going to have much that is intelligent to say within a very few days of that. It seems to me that if we are going to make anything in the way of a cogent report and provide the Legislature with any useful advice, we would need a little more time than we seem to have, given the October 10 deadline.

Mr. Chairman: I wonder whether this discussion is a few hours premature. The thought had crossed my mind at one stage earlier--and Mr. Arnott says it is in order and not improper--to suggest that we get permission to go over the 90 days. But perhaps we will know later today whether we are dealing with a whole new ball game.

Mr. Taylor: I am inclined to agree with Mr. Mackenzie about the independence of mind and thought of this committee in response to the mandate that was given us by the Legislature. Sure, it is significant if the Prime Minister of Canada indicates a willingness to talk. I do not know that it changes so much the thinking of the committee about what it has heard so far and the response to what it has heard.

If we get into much more discussion about the timing of the report and whether or not we have substance to report, I think we are then going to be getting into the substance of the report. That should probably be confined to our in camera sessions rather than be proceeded with at this time. I gather the committee is still being reported.

Mr. Chairman: Yes, we are. Do you wish us to cease using Hansard?

Mr. Taylor: No, I do not think so. I am just saying that what we are doing now perhaps is getting involved in the substance of what the committee might be suggesting should be contained in its report.

Mr. Chairman: Is it understood we will have a closed session next Tuesday morning? If anyone wishes to raise this in view of other events, we can do so later this week.

The committee recessed at 12:25 p.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, SEPTEMBER 23, 1985

Afternoon sitting



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Substitutions:

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Haggerty, R. (Erie L) for Mr. Cordiano  
Hennessy, M. (Fort William PC) for Mr. Bennett

Clerk: Arnott, D.

Staff:

Traficante, F., Research Officer, Legislative Research Service

Witnesses:

From the Ontario Provincial Council of Labour:  
Conrad, R., Secretary-Treasurer  
Herechuk, E., President

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, September 23, 1985

The committee resumed at 2:17 p.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Perhaps we could get started. I apologize to committee members and guests for my tardiness in arriving.

Mr. Brandt: We will have to take it from your pay.

Mr. Taylor: This is the first time you have been late.

Mr. Chairman: That is right. It is the first time since the beginning of July and I am sure no other committee member can say that.

Mr. Taylor: The smallest speck is seen on snow.

ONTARIO PROVINCIAL COUNCIL OF LABOUR

Mr. Chairman: I welcome the members of the Ontario Provincial Council of Labour, Ed Herechuk and Reg Conrad. I apologize to you, gentlemen, for the late start. I see you have a presentation and I welcome you to take over.

Mr. Herechuk: At the outset, I would like to state that if at all possible, we would like to be out of here by 3 p.m.

Mr. Chairman: Or shortly afterwards, please.

Mr. Herechuk: I will get on with the presentation and then we will have questions, if that is fine with the committee.

The Ontario Provincial Council of Labour is pleased to have this opportunity to appear before this special committee on Canada's international relations and to present some of our thoughts on the subject of bilateral trade with the United States. I would like to stress at the outset that this is a very complex issue requiring much study and that our presentation today represents only the Ontario council's initial views in this regard.

Canada is a trading nation. Nearly 30 per cent of our gross national product is constituted by exports. Among the seven most industrialized nations, only West Germany's economy is more dependent on trade. Three million Canadians are employed in export-related industries.

It is vital to our national interests that Canada develop new ways of enhancing its position as a first-rate trading nation. This will be particularly important to the employment of Canadians and to improving the standard of living of all our citizens.

The Canada-United States trade relationship, by its very dimension in our total trading effort, requires special attention and concern. Eighty per cent of Canadian goods now go to the US, while US goods constitute 70 per cent of total imports into Canada. Our bilateral trade is fast approaching \$150 billion per year, about one fifth of our gross national product. Moreover, the percentage of Canada's total trade to the United States is increasing. Over the last five years, exports to the United States increased nine per cent, and imports of US goods to Canada increased 5.3 per cent.

Canadian and American wage levels and consumer spending abilities are similar, minimizing many problems to trade that exist with some other nations. The United States is, and will continue to be, our most important trading partner.

The question of how to secure enhanced access to the US market has long confronted Canadian policymakers. Recent protectionist measures taken by the US Congress and at the state level, coupled with the absence of any guarantee of consistent, long-term economic growth on the part of the American economy and the slow recovery of the Canadian economy, have renewed the need to examine our trading relationship with the United States.

The Ontario Provincial Council of Labour would like to take this opportunity to raise areas of concern associated with free trade between Canada and the United States. We are more inclined to support the idea of enhanced or fair trade than that of free trade. We stress that the issue must be approached with an examination of its effects on the Canadian economy as a whole, with reference to each sector of the economy in terms of jobs and existing enterprises. In addition, we are concerned about the impact of free trade on the balance between our primary and secondary industries, as well as the competitive stances of Canadian agriculture, resource, manufacturing and other industries.

We must examine the impact of enhanced trade with the United States on costs, employment, industrial structure and location of consumer markets. Consideration must be given to the effect of any freer trade arrangements on Canadian investment in research and development technology and on national and multinational corporations.

Proponents of a comprehensive free trade arrangement with the United States argue that the principal benefits for Canada centre on the economic advantages to be derived from producing a larger market made reasonably secure by trade barriers. This market access could generate substantial productivity and efficiency gains in the production of goods exhibiting significant economies of scale and specialization. They argue that such an arrangement could secure our present large volume of trade with the United States by the formalization of treatment of each country's tariff and nontariff barriers.

Would there be economic gains and, if so, would they be as great as the estimates that are cited by free trade proponents? We must be satisfied that it is possible for Canadian secondary industry to achieve the improved efficiency and productivity

levels envisioned by free trade proponents in the light of comparative advantage already attained by many American-based secondary industries.

Employment creation must be a prime concern when considering a balanced Canadian economy, international trade or less restricted trade arrangements. Unfortunately, in the past, Canada's solution to the trade balance has been to export natural resources and resource-based, semi-finished products, not manufactured end products. Canadian trade to the US consists predominantly of raw resource goods, with a limited degree of processing such as natural gas, electricity, minerals and crude petroleum, whereas leading American exports to Canada consist of such highly processed manufactured end products as motor vehicles, vehicle parts, automobiles and computers.

Canada had a great trade deficit in manufactured end products through the 1970s and 1980s ranging from \$3.1 billion in 1970 to \$17.8 billion in 1980. A freer trade arrangement with the US could increase this pattern of trade in favour of raw resources, as compared to Canadian manufactured goods, unless actions are taken to ensure a better balanced economy and a greater opportunity for job-producing secondary industry.

This statement is underscored by the fact that Canada and the United States have been moving gradually towards freer trade during the 1980s, but no shift in Canada's pattern of trade is yet apparent. By 1987, 80 per cent of Canadian goods entering the United States and 65 per cent of American goods exported to Canada will enter duty-free.

Furthermore, even in those sectors where tariffs exist, some United States firms can still successfully compete in Canada. Freer bilateral trade, therefore, is more likely to eliminate the competitive position of the smaller-based Canadian firms.

Under a comprehensive bilateral free trade arrangement characterized by increased competition, a possible scenario for Canada is the gradual replacement of Canadian manufactured production by the United States sector, leaving Canadians as simply hewers of wood and drawers of water. This not only implies a loss of employment but would also severely limit our capability to foster the indigenous research and development technology necessary for Canada's long-term success as an industrial society.

Whenever we increase exports of our resources, our balance of payments and the level of the Canadian dollar are improved, but we automatically make our secondary industries less competitive. The international trade position of our secondary industries should be examined, assuming we had no primary commodities to export.

The disadvantage to secondary industry created by increases in the balance of payments and the level of the Canadian dollar from primary industry exports may require tax or a similar type of subsidy from primary industry to support an expanded secondary industrial capability in Canada.

Before we consider an enhanced trade arrangement with the United States, we should consider directing a proportion of the economic gains obtained by primary industry exports to our secondary sector to ensure its development and viability so that we are able to create jobs within the Canadian industrial sector.

Any move towards freer trade must, therefore, promote jobs through our industrial, manufacturing capability, not perpetuate or increase our reliance on primary resource products.

Yet another concern of the effect of free trade centres on foreign investment in Canada; 48 per cent of Canadian manufacturing is foreign-controlled, of which 80 per cent is US-controlled.

Many of these firms were initially established in Canada to leap over the tariff wall and obtain access to the Canadian market. Consequently, they may have little interest in exporting abroad and would certainly find it difficult to compete with their parent companies in the United States for international trade.

A free trade arrangement with the United States could encourage a greater inflow of American capital, but might also cause the dismantling of Canadian branch plants and result in the Canadian market being served either from the United States or relocated offshore production. This could mean a significant decline in our manufacturing sector, as well as a loss of jobs for Canadians.

In determining what is fair to Canada, the transportation cost of produced goods needs to be considered. Given that under a free trade arrangement 90 per cent of the market would exist in the United States and 10 per cent in Canada, the cost of transporting Canadian goods to the United States would encourage firms to locate in the United States and ship 10 per cent of their goods to Canada. As well, incentives for future foreign investment would more likely lead to the United States than to the Canadian market.

We should examine whether there would be a loss of economic, political and cultural sovereignty for Canada as a result of closer economic integration with the United States. In negotiating nontariff barriers, the United States may require Canada to give up important industrial policy tools, such as federal subsidies to stimulate regional development and tax policies which favour Canadianization, in return for exemptions from US protectionist legislation.

2:30 p.m.

In short, the price of admission to the American market could be the economic policies needed to put Canadian industry in a position to compete there and could reduce Canada's control over some future economic, cultural and political developments.

Finally, when discussing the issue of free trade, we should recognize that even with the Canadian market free trade does not exist in the light of some provincial trade barriers. Provinces

may be asked to surrender some policies such as provincial protectionism, provincial marketing boards, procurement programs favouring made-in-the-province products and provincial import restrictions in order for Canada to obtain a free trade arrangement. For the federal government to obtain such a negotiating mandate from each of the provincial governments may simply be wishful thinking.

The Ontario Provincial Council of Labour stresses the need to approach the issue of freer trade with the United States carefully in the light of the concerns which we have expressed. This issue should be extensively examined with reference to its possible impact on each sector of the economy and in full consultation with labour and business. It should be examined to ascertain whether we would be competitive if our dollar was on an equal value to the US dollar. We should start by seeing how we can build a competitive secondary industry balanced with any primary resources we choose to export with consideration for the difference in job creating potential between our primary and secondary exporting sectors and in terms of the impact on our balance of payments, dollar level and competitiveness.

This would enable us to be more competitive with any trading nation in the world and have productive industries that employ people.

Just to summarize very quickly what we went through in the executive summary:

It is vital for our national interests that Canada develop new ways of enhancing our position as a first-rate trading nation. This will be particularly important to the employment of Canadians and to improving the standard of living of our citizens.

Canadian and American wage levels and consumer spending abilities are similar, minimizing many problems of the trade that exists with other nations.

We are more inclined to support the idea of enhanced or fair trade than that of free trade. We must examine the effects on the Canadian economy as a whole, with specific reference to each sector of the economy in terms of jobs and existing enterprises.

Consideration must be given to the effect of any freer trade arrangements on Canadian investment in research and development technology and on national and multinational corporations.

Employment creation must be a prime concern when considering a balanced Canadian economy, international trade or less restrictive trade arrangements. In the past, Canada's solution to the trade balance has been to export natural resources and resource-based, semi-finished products, not manufactured end goods.

Canada has a trade deficit in the manufacturing end. A freer trade arrangement with the United States could increase this pattern to favour raw resources as compared to Canadian manufactured goods.

Whenever we increase exports of raw resources, our balance of payments and the level of the Canadian dollar are improved but we automatically make our secondary industries less competitive.

Before we consider an enhanced trade arrangement with the United States, we must consider directing a proportion of the economic gains obtained by primary resource exports to our secondary sector to ensure its development and viability so that we may be able to create jobs.

Under a free trade arrangement, 90 per cent of the market would exist in the United States and 10 per cent in Canada. The cost of transporting Canadian goods to the United States would encourage firms to relocate in the US and ship 10 per cent of their goods to Canada.

We should examine whether there would be a loss of economic, political and cultural sovereignty for Canada as a result of closer economic integration with the US. In negotiating nontariff barriers, the United States may require Canada to give up important industrial policy tools, such as federal subsidies to stimulate regional development and tax policies which favour Canadianization.

The issue of freer trade should be examined to ascertain whether we should be competitive if our dollar was of equal value to that of the United States. We should start by seeing how we can build a competitive secondary industry balanced with any primary resources we choose to export. At the same time there should be consideration for the difference in job-creating potential between our primary and secondary exporting sectors in regard to the impact of our balance of payments dollar level and competitiveness. This would enable us to be more competitive with any trading nation in the world in products, industries and employment of people.

Mr. Morin-Strom: Mr. Herechuk, could you give us some background as to your provincial council of labour? I would like to know how many members there are, what areas of the province you are in, the labour organizations that are part of your council.

Mr. Herechuk: We are the provincial arm of the Canadian Federation of Labour, which is the organization that broke away and formed a new organization three and a half years ago.

We are principally in the building trades, although there are a couple of new affiliates that are not within that group--the radio operators and the paramedic association in Manitoba. Approximately 30 to 40 per cent of our people are in the industrial sector, the rest in the construction sector. The council itself was just formed last November at a founding convention. We are a new labour body. We have an affiliation in Ontario of about 30,000 at this time and we are still growing. That total has come about in only the first year.

Mr. Morin-Strom: The largest portion is in the building trades in Ontario?

Mr. Herechuk: Yes, it is.

Mr. Morin-Strom: I just thought we should have a little bit of background for the record.

From your executive summary and the whole thing, you say you are inclined to support the idea of enhanced or fair trade rather than free trade. However it is extremely nebulous as to what enhanced or fair trade means. What do you mean by enhanced or fair trade?

Mr. Herechuk: It is obvious that the United States is our major trading partner and that we are moving towards a freer movement and a larger portion of our trade across the borders. We feel we should be looking at the resulting effect on individual industries--if need be on a sector basis, on a plant-by-plant basis. When I say "we," I mean government, business and labour together. We should be looking to see if there are ways in which we could give ourselves a larger market in the United States in an enhanced method of trade, without losing our protectionism and our individualism as a country.

We do not feel full free trade would maintain us as a country as much as enhanced trade would; we feel we would lose some cultural effects and the like. Enhanced trade could be just freer movement between the two countries, while still maintaining nontariff and tariff barriers. These are going to be necessary in certain areas. We just do not feel an open area is sufficient.

Mr. Morin-Strom: How important do you think provisions such as Canadian content--which is a key to the auto pact--are to our industrial sector? What are your views on import replacement and a move toward self-sufficiency in those kinds of consumer products, electronic products, where right now we are at a competitive disadvantage in regard to the finished product? Do you see import replacement and Canadian content as important components of a trade strategy, or economic strategy for Canada?

Mr. Herechuk: We see a problem if it is not.

Mr. Morin-Strom: So you see that as part of what you would call fair trade--trying to get our fair share of jobs in any particular sector?

Mr. Herechuk: Oh, I certainly do. If we are going to look into more comprehensive trade arrangements, we have to look at a way of using our industrial sectors and our finished product sectors as a way of trade as opposed to simply getting rid of all our natural resources. We seem to do a very good job of exporting those. But when it comes to other areas such as textiles, autos, and steel, we have to look at ways of protecting those industries to a certain point. We must make sure we do not simply just give up those industries for the purpose of getting a cheaper product.

2:40 p.m.

Mr. Taylor: Mr. Herechuk, I want to congratulate you on your brief. I sense it indicates an open mind with respect to the

posture of your organization, being mindful of the fact we have to trade. That is pretty vital. Of course, you warn us of all the pitfalls that the committee has been struggling with.

Interjection: Name the pitfalls.

Mr. Taylor: There are a lot of areas that are sensitive and there are sectors that might be in jeopardy. It is not a cut-and-dried or simple issue, and I think you have indicated that very well.

I wonder whether you had any studies or any hard information that would indicate one way or the other directionally which way we should proceed.

Mr. Herechuk: Actually, the majority of our studies and information comes from our national body at this time, as we have been in existence for less than a year. We are trying to approach it from the position of not being experts in the area. We are trying to approach it with, as you say, an open mind. We say: "We do not have all the answers. We do not have all the studies." We want to bring to everybody's attention what we feel could be problem areas, and we wish to address them. We would like to participate in the future in finding out what those things will be.

We do not have all the answers right now, no. I wish I did. Much of what I have for you is here. I wish I had an answer. It would be easy if I did.

Mr. Taylor: The reason I ask is that we find ourselves in the position of having to guess as well. I do not think anyone is going to have all the answers, but it is important to guess in a directionally correct way. Of course, you can form your judgements only on the evidence you hear and on your predispositions with respect to the potential enhancement of trade opportunities, which are vital to the country and the province.

Do you have any concerns about an opening of discussions as opposed to negotiating a bilateral agreement with the United States? Do you sense that it would be a constructive start at least to sit down and discuss the issue in a comprehensive way?

Mr. Herechuk: I obviously have concerns. The concern I have is ~~not that we would have discussions.~~ I am more concerned that we would have discussions without having done our homework first, without having made sure that we address every part of the sector we see as possible with the relationship, looking to enhance secondary industry as opposed simply to giving the United States our natural gas, as an example, at a lower rate.

Our concern would be to make sure that we look into all areas first. If we are going to start discussions, let us make sure that the discussions include all areas, not only enhancing a cheaper product to us but also whether we would be competitive if our dollar were an equal-value instead of a 70-cent dollar. What would that mean to us?

I think the discussions are going to take place whether we

like it or not, so rather than be concerned about whether the discussions take place, we would be more concerned about making sure the content of the discussions is correct.

Mr. Taylor: I sense from what you say that you would like to put everything on the table so it can be examined in the light of what might be beneficial and what might be detrimental to the country.

Mr. Herechuk: Yes. Let us find out.

Mr. Taylor: You talked about specifics in the manufacturing sector and the traditional reliance in our country on raw materials. That causes me some concern, because at one time Canada was in a better position to supply other countries with raw materials, but there are a lot of countries in the world now that have what we have and we are meeting competition in those areas. Mining is probably a good example.

In your brief you mentioned--this is the other side of that coin--the importance of manufacturing and of developing a healthy manufacturing or industrial sector. I think everyone must agree with that. Although you did not say it, I sense you may think we should also be developing some kind of industrial policy or strategy in regard to our industrial sector. Would it be fair to infer that from your brief?

Mr. Herechuk: I think that would definitely be a fair inference. Mr. Conrad would like to add something to that.

Mr. Conrad: You mentioned the manufacturing industry and that is one area I am involved with. My union local is an industrial local. Over the years we have seen our local go down in membership because of reduced manufacturing. One also hears quite a number of reports about the textile industry and others that are not able to compete with Japanese or American industries.

We are concerned about the possibility that freer trade with the United States may make our position even worse than it is now, that we will not be able to compete with the United States in a free trade market. As mentioned in the brief, that is a giant market compared to ours and it would seem logical for many American-based companies to relocate in the United States and serve their markets from that area. We do not have answers, but we have a lot of concerns.

Mr. Taylor: We are getting two sides on that. This morning we heard from the wall covering industry, which apparently has state-of-the-art manufacturing equipment that enables it to compete with the United States, not only very well but also in a superior way. I guess in a world sense they have world state-of-the-art facilities.

We heard from Petrosar, which is anxious to have more liberalized trade because with its technology and its products, it is anxious to expand and compete anywhere. They are not the least bit timid. We heard from Stelco about the steel industry. They have modern facilities and feel they can compete with anyone.

In my own area--not in my riding--we have a boxboard industry that says, "If there is free trade, we are going to be out of business tomorrow." What is the job picture in Napanee? There are, of course, two sides to everything.

You mentioned a figure in your brief, that the trade deficit in manufactured end products throughout the 1970s ranged from \$3.1 billion in 1970 to \$17.8 billion in 1980. I was wondering how that compares in terms of a dollar adjusted for inflation, and as well a dollar, or a percentage or a deficit related to population. I am trying to sense whether the picture is getting extremely bad or whether it is not all that bad. Do you have anything further on that?

Mr. Herechuk: Even if you took the 1980 dollar as being worth 25 cents in terms of the 1970 dollar, one quarter of the value, if you multiplied that by four you would still find that we have a growing deficit. I think that would be a very liberal--

2:50 p.m.

Mr. Taylor: In constant dollar terms. On a per capita basis, is that worse?

Mr. Herechuk: You mean a--

Mr. Taylor: If we look at our population, of course more population demands more goods so your total dollar figure is going to increase presumably, even if people do not increase their desire for manufactured imports in the United States. I am just wondering if you had done anything to indicate the importance of that figure.

Mr. Herechuk: I could not give you exact figures. I could certainly have them for you in a short while if you wish. If you find the population increase between 1970 and 1980, we have gained probably about eight million people. If you wish to say that eight million would justify the larger trade deficit, I am not sure that makes sense, even on a reduced dollar basis.

If the trade deficit is growing, it is growing not only because of the shrinking dollar but also because more goods are coming into this country on a yearly basis.

We see industry, even without the so-called comprehensive free trade arrangement, going under one by one. We see automobile accessory industries being moved out of the country, textile industries slowly congealing down into smaller units and areas where plants are being closed because they simply cannot compete with other areas.

We have some of the best technology in the world as far as steel goes, but that does not necessarily make us competitive with those giants in the states against which we have to compete.

Our concerns are that we are sure what we are doing. Let us make sure our discussions are complete.

Mr. Taylor: I was thinking in terms of our current trade surplus overall with the United States.

Mr. Herechuk: If I might answer that, you must recall that the majority of the current surplus is in natural resources. What happens when they go by the wayside?

Mr. Taylor: I appreciate the breakdown of that and the fact that our invisibles do not necessarily show when you are talking about manufactured products either, dividends, interest going out and that kind of thing.

I was trying to sense the significance of this increased figure as to whether this is a warning or an argument where we are getting worse instead of better in terms of the development of a strong manufacturing industry. I am trying to draw your conclusion from that figure.

Mr. Herechuk: I would have to say it is not an argument that we are getting worse. It is an argument that unless we open our eyes and do something about it, we will. Now is the time to start looking at all the areas.

Mr. Taylor: Thanks very much.

Mr. Brandt: I would like to compliment the gentlemen on their brief as well. I found it balanced and thoughtful. I was impressed with your conclusion that we should discuss without committing ourselves in advance and that your message is one of caution as opposed to walking headlong into some form of free trade without knowing the ramifications. I share that view with you and I think many members of the committee do as well.

Of the 30,000 members you have, if I heard your figures correctly, 70 per cent were in the construction area in Ontario and about 30 per cent in the industrial field. Is that fair?

Mr. Herechuk: It varies with each of the affiliates. The International Brotherhood of Electrical Workers, as an example, has a larger number in the industrial sector than in construction. My union, the operating engineers', has a larger area in construction than industrial. Between 30 and 40 per cent industrial is a realistic figure.

Mr. Brandt: What I was trying to get at was approximately how many jobs in the trade unions you represent would be directly involved in export activity. I presume more of them in the industrial sector would have interests relative to our trading relationship with the United States, but if there are areas in which construction workers, for example, are interested in the export question and our access to the American market, I wonder if you could identify some of those potential areas of concern.

We are aware, as you pointed out in your brief, that a branch plant in Ontario could well be rationalized out of existence simply by moving all its activities back to Pittsburgh, Cleveland, Detroit or wherever the home plant might be,

particularly in a branch plant relationship. In some of the other jobs that are directly involved in the organizations you represent, could you identify some areas of concern other than those connected to branch plants?

Mr. Herechuk: Many of our areas of concern on the construction side would not be a direct loss so much as an indirect loss. If you have a loss of construction because of the loss of industry, obviously you do not have construction jobs; if industry relocates, as an example, into the United States from Canada. That is a possibility. Maybe that plant was going to be built here.

Suppose Toyota decided we were going to have free trade; they might build their plant in the United States and not bother with Canada. That is a direct loss of jobs, yet it is indirect. It has to do with the same thing, but it is indirect. I am not quite sure how to put it to you any other way. Construction jobs are directly related to industry. If industry does not proceed, construction job are going to be lost.

Mr. Brandt: By and large, are the construction jobs you are talking about building only in Canada for Canadian or Ontario consumption or are there products out of that part of the industry, for example, prefabricated goods or others that may be manufactured here and then shipped to the United States, on the part of any of your affiliated unions?

Mr. Herechuk: Certainly. If you build a plant that is in the export business, obviously the jobs are going to be directly related to exports. If we are the construction personnel in a hydro plant and hydro is exported to the United States, we are obviously a direct part of it and of the export. But by the same token, many of the areas we would be in would also be Canadian-related industries that would not necessarily be targeted for the American industry at this time. We would have both.

Mr. Brandt: Moving along to the trade union movement for a moment, obviously there are industries that have already started some discussions on a form of freer or fairer trade, as some people describe it. Some of the governments have had discussions on this already. Would it not be appropriate for the trade union movement, through organizations such as yours, to begin the same kinds of discussions with the trade union movement in the United States, more particularly considering the fact that the trade union movement as a percentage of membership relative to the labour force is weaker in the United States than it is in Canada?

Mr. Herechuk: Those discussions take place now. They have taken place for years. There have always been concerns about movement of personnel and jobs and about trade unionism in the United States and in Canada. One of the major formats of the last AFL-CIO convention, of which we are part as international organizations, was being responsive to the new outlooks on what labour is going to have to do in the future to seek a better standard of living for people, jobs and protecting the labour movement. So yes, we are already involved in that. I suppose we simply have not been in the forefront with government and

business, but in the labour movement those discussions are continuing and we are trying to be part of the discussions with business and governments as well.

3 p.m.

Mr. Brandt: If the trade union movement on both sides of the border could reach agreement on employment, job-related issues and some of those areas of concern, it might simplify the problem for industry or government to include some of those thoughts in an overall package that might--and I underline the word "might"--incorporate some of the safety nets, the caveats and the mechanisms that have been developed in the auto pact, as an example, where we have Canadian content and a measure of recognition that there is a market to the south of us 10 times as large which could very well swallow us up completely if we did not build in some form of balance that would allow for the development of a Canadian section of an industry and an American section at the same time.

Some industries talk about world product mandating, for example; that could be a way in which some of our industries could enhance their position. That has not been mentioned, and I have been on this committee only a short time. Our competitive position could be improved by taking one product of a series of products that might be available for export and specializing in that one product as opposed to trying to be a world trader with our very small domestic market of 25 million and attempting to be competitive with huge markets such as the Japanese with their 125 million, their tremendous export capacity and, I might add, their lower wage rates and the fact that many of their social programs are far less sophisticated than ours.

There may be ways in which the trade union movement could look at things such as world product mandating and try to build in some of those protective devices well in advance of the negotiations getting too far down the road. I personally would encourage that kind of discussion. I am pleased to hear they have gone on. But if I could perhaps offer a word of suggestion, I think they should be intensified.

You have outlined in your brief the most important message this committee gets; that is, the status quo will not remain. The \$150-billion trade deficit the United States is now experiencing has to be dealt with in a political sense by the people who are elected to protect their people in the US market. What we have to be very careful about is that we do not bunker down our mentality in Canada and say, "We are simply going to hope that the status quo remains," whether that is good or bad.

My colleague Mr. Taylor mentioned that in some trade sectors we have some advantages in that we are selling more to them than we are buying from them. But that will not continue ad infinitum unless we are very lucky.

I am encouraged by what you are saying. I think it is important that those discussions take place and that we get a flavour from you and your organization as to the kinds of specific

things and specific industries you are concerned about. It is one thing for committees such as this or at the federal level to determine what the impact may be on an industry, but we have to look at the impact on the employees as well and recognize there may be some losses and some gains in whatever we negotiate. We have to look at the very specific human problems that exist in certain communities.

This morning we addressed the concerns we have about single-industry communities where there might only be a furniture manufacturing plant, for example. That is one of the areas that could be under real stress if we went into free trade. The textile industry and many others are highly vulnerable to any reduction of present tariffs and would be taken over by the much larger market. We have to look at the human problems in those communities. Your people can be very helpful in assisting us to understand that problem better.

Mr. Herechuk: We are definitely prepared at any time to participate with you in any way we can to help you in those areas. As I said at the outset, this brief is simply meant to be the beginning; it is meant to be our initial outlook in this area. We do not propose to have all the answers in those areas, but we are willing to sit with you and with business and find the answers. That is what we feel this is all about. That is what the start of this committee is for.

Mr. McFadden: We could talk for quite some time about some of the points you have made. I will keep my questions brief on a couple of points, and maybe at a later date we will have a chance to talk in more detail.

One question I have for you is related to the proposed tax or a similar type of subsidy from a primary industry to support expanded secondary manufacturing. I take it what you are talking about is some sort of export tax, such as a royalty on minerals being mined or lumber being exported. Is that what you were thinking about in that regard?

Mr. Herechuk: I do not propose to tell the government what taxes to put on what. We are trying to stress that if there is a freer trade arrangement and if there is an increase in our primary resource industries as a result, some of the increase, the profits or moneys they have received, must go back into the Canadian sector to create jobs.

Primary industries create few jobs. We end up giving away our resources and not getting jobs back. We are not keeping Canadians working. The last thing we want to see is Canadians having to go down to Georgia to find jobs in textile plants because there are none in Canada. We are not even involved in textiles; I am just using it as an easy example to work with.

There must be some way of taxing or a royalty of some type to get some of those profits back into Canada to create jobs for citizens.

Mr. McFadden: I do not know whether you have a method whereby this would be done, but I take it the revenue from this

form of tax would somehow be transferred to the secondary manufacturing sector. What were you looking for in that way? How would that be done?

Mr. Herechuk: As an example, it would be for upgrading secondary industries where we have outdated plants. They could possibly be upgraded with a government subsidy as a result of a fund created by such a tax. It would give them money to buy modern equipment and become more productive so they would be able to compete on a higher productivity basis.

Productivity does not necessarily mean people are not being productive. It may mean the plant itself is simply not capable of handling increased productivity. There could be ways and means of upgrading plants and possibly of looking into specific new sectors about which we could say: "Here is a product we can manufacture. Nobody else does. Let us put money into it and get people working."

Let us put the money to work for Canada. If we are going to give away our natural resources, as we seem bent on doing, let us get some of that money back and make it work for our people--I do not mean just for organized labour; I mean for Canadians.

Mr. McFadden: If there were a direct correlation, the potential difficulty it would create for any government would be the concern that people would have in the areas of this province or elsewhere that produce the raw materials--I am thinking of northern Ontario or British Columbia in the west--that a special tax on their activities could make their goods somewhat more expensive internationally and they would find that money transferred to southern Ontario, for example, to help our secondary manufacturing industry.

I do not know whether there is a total answer to what I am raising. I am just saying a perception problem would definitely develop for people in the north if they thought that essentially this money would be used only for the benefit of the manufacturing sector in southern Ontario, which it probably would be.

Mr. Herechuk: I wish I were wrong when I state that I do not think the resources industries are going to have to worry about us taking money out of them and putting it into manufacturing if we go into a free trade mode. Free trade will definitely enhance our natural resources. We will have no problem getting rid of many of our natural resources through free trade. Lots of people would like them.

Mr. McFadden: You are saying there would be such an increase with respect to the market for our resources in the United States as a result of free trade that it would more than offset any taxes or whatever that might be picked up.

Mr. Herechuk: Sure; we feel an increase in profitability would be obtained through something such as that. There must be a way to take some of that increase in profitability and put it wherever necessary, whether it be in Ontario, Alberta, British Columbia or the Yukon. It would be put wherever it is needed.

Mr. Brandt: Can I ask a supplementary question?

Mr. Morin-Strom: I would like to ask one too.

Mr. Brandt: On that point about the resources--am I out of order?

Mr. Chairman: I had recognized the member for Sault Ste. Marie (Mr. Morin-Strom) first.

Mr. Brandt: I will ask a supplementary after he has finished.

3:10 p.m.

Mr. Morin-Strom: I would like to bring a little northern point of view. Northerners are very concerned about what happens to the resource industry. Some of the resource representatives we have had here, such as those from the forest products industry, indicated there may be some limitations as to how much expansion and capability there is in regard to the renewability of the forest resources in northern Ontario.

One of the major concerns for northerners is how to better diversify our economy. People from northern Ontario are quite disturbed with the boom-and-bust cycle which results from complete dependence on resources. One suggestion is to take some of the revenues out of resources to diversify the northern economy. People would be particularly upset if all the funds came to southern Ontario from the resource sector in the north.

The other thing is that encouraging diversification in the north or in a lot of the more isolated areas of Canada requires regional incentive programs which have been used and proposed for those kinds of areas. They are exactly what the Americans have been telling us would not be permitted under a free trade arrangement. Canada would not have the opportunity to direct investment for stimulus into specific areas.

While there may be benefits of increased lumber or mineral sales, there is some question about how to balance the economy in northern Ontario and other areas.

Mr. Herechuk: It is not an easy question, unfortunately, but it is a question that definitely has to be addressed. Getting rid of our natural resources will not be difficult; there are many people who would be quite happy to take them off our hands. The question is getting the money to work for Canadians in return rather than just giving away what we have to offer.

Mr. Brandt: Where are these markets? What resources are you talking about? Almost every one of our resource markets is under intense competition from other markets in the world. As an example, if you look at the forestry--

Mr. Morin-Strom: It is almost all free trade now; there is very little duty.

Mr. Brandt: But if you look at the forest industry, Brazil and North Carolina have come into that industry recently. Even if you consider resources of other parts of Canada under free trade, such as oil and gas, with the markets collapsing in that sector at the moment the prices are actually going down.

Where do you feel there are resources--and if you know of them, please identify them--where you could add on to the existing price a bonus, royalty, tax or whatever one might refer to it as, that could be used and recycled to help manufacturing in whatever fashion?

You have said a couple of times--Mr. Taylor is going to stop you on the same point, I think--that people are anxious to take our resources from us. That is fair to a point; they are anxious to buy them when they need them, but virtually every one of our resources, to the best of my knowledge, is under extremely intensive price competition. Maybe you could elaborate on that.

Mr. Herechuk: Part of what would concern us would be that if we went to freer trade, we would be able to let our resources go out of this country at a lower price simply because of a larger market.

One of the things that Alberta, for example, has said--and I will not specifically name names; I will just say Alberta--is, "Let us hurry and open the border so we can sell our natural gas down there for less than we are already selling it." I consider that a high-profit industry that simply wants to give away a natural resource as quickly as possible and keep the profits in the coffers of the heritage savings trust fund in Alberta. I find that type of thing very hard to deal with.

I do not think any industrial nation is averse to buying natural resources from another nation. Whether they get it at the price we want to give it to them or not is a different question. But if we are going to open up the border to the United States, I would think they are, generally speaking, going to get our resources at a lower price than they are required to pay now with the tariff barriers.

If tariff barriers are not there, why would they not buy the resources from us? Why would they not want to come to us for natural resources if we do not act in a careful and controlled way? Why should we just open up the border? I think it would mean just giving our natural resources away. I do not mean it in that context; I just mean they would be easy to sell.

Mr. Brandt: What you are saying is they would be required to pay more for our natural resources. Assuming there was a world price on a particular product, following your theory, we could bonus that product to acquire a tax of some kind. I like the theory; I just do not know how you could make it work. Can you tell me now what resource we could bonus in such a way as to acquire additional tax that could be used for government purposes to stimulate other kinds of industrial activity? In other words, where have we underpriced our resources in the world market?

Mr. Herechuk: Underpricing them may not be the problem with the tariff barriers that are on. If you removed them, they may be underpriced at that time.

I would again key on the area of natural gas. We have a very large quantity of gas. There is no doubt the Americans are ready to buy it as soon as we are ready to sell it to them tariff free, shall we say. The Alberta Premier has already said they could sell it to the United States cheaper if we simply removed the barriers. If they can sell it to them cheaper, does not my logic follow that they would sell more? If they sell more, they will increase their profitability. They will increase production and some of that profit should be able to be scraped off to come back to Canadians.

I do not have the answer as to what tax or what royalties you should put on, but somewhere along the line we must be able to recover something. We cannot just give it away.

Mr. Taylor: We may be a little confused. You are probably dealing more with a nontariff barrier because you are into export licences and the National Energy Board when you talk about exporting natural gas and oil, which again is a question of government policy. I would think you are more into the nontariff barrier area, which may not be the best example when we are talking about natural resources and minerals.

Mr. Herechuk: I said it is no easy question. I do not sit here professing to have all the answers.

Mr. Chairman: Mr. McFadden would like a supplementary as official spokesperson of the always-united Progressive Conservative Party.

Mr. McFadden: No, this is a new question.

You mentioned it would be wishful thinking to suppose the federal government could obtain a negotiating mandate for mutual free trade between provinces. Also, you talked earlier about the barriers between provinces. Is your federation in favour of free trade between provinces? Some witnesses here have said this is one of the desirable goals in Canada. In addition to potentially targeting freer or enhanced trade with the United States or elsewhere, it would be beneficial for us to have free trade from coast to coast in this country, which we do not now have.

Are you in favour of free trade nationally? I am curious to know exactly what you meant by that. I was not sure you were endorsing free trade from coast to coast or whether you were just pointing out that the federal government might never be able to get consensus on that.

3:20 p.m.

Mr. Herechuk: We are not sure whether a consensus could be reached in that area. We have always had that fight over the years, without having to worry about freer trade with the United States, over whether products should move across this country without barriers.

I would have to say to you we would be in favour of a more unified Canada, which would mean freer trade across this country. If we cannot have that, if we cannot get our own house in order, we would have to wonder at looking elsewhere.

Mr. McFadden: Then would you be in favour of, in your words, "getting our house in order," and actually removing barriers between one province and another?

Mr. Herechuk: Yes.

Mr. Chairman: Thank you very much for a well-presented submission. I am sure we will be considering it carefully.

Mr. Herechuk: I have more copies and executive summaries if anybody wishes them, if you want me to leave them behind for you.

Mr. Chairman: Perhaps you could leave them with Mr. Arnott. We certainly might be able to make use of them.

Members of the committee, as you know, we will not be sitting tomorrow. I think you have an itinerary in front of you now with regard to Kitchener. The plane tickets will be available from Mr. Arnott on the bus. If you are not going to Kitchener, you would pick them up at the airport, I guess.

Clerk of the Committee: I will have them delivered to members' offices tomorrow.

Mr. Chairman: Fine. Also, I understand next Tuesday morning is not convenient to the Conservative caucus, so we will change that to Tuesday afternoon. Presumably, we will not be sitting Tuesday morning.

Mr. Morin-Strom: Where will we be next week?

Mr. Chairman: We will be sitting here with the regular hearings on Monday. We will have Tuesday morning off; Tuesday afternoon we will be in camera. Please do not come thinking you have to say aye or nay or whatever. It will be just a generalized bull session of areas we want to cover. We will be sitting here hearing witnesses Monday, Wednesday and Thursday and we will have an in camera session Tuesday afternoon.

Mr. Morin-Strom: The week after is the last one before the House resumes. Are we off that week or are we meeting then, too? What is our deadline?

Mr. Chairman: I believe it is October 10.

Mr. Morin-Strom: What are we doing that week?

Mr. Chairman: We discussed this morning the possibility of trying to extend sittings for another week, but we have not come to any conclusions. The reason for that would be that it may be events will move very quickly in the next few days and we may not want to move too quickly in reaction to them. However, we

decided not to make any decisions on that score unless and until such events occur.

Mr. Trafficante: If I could make a brief suggestion, you may want to schedule that week, October 7 to 10, as probable days for the committee to get together to discuss the content of its interim report.

Mr. Chairman: We would have many in camera discussions, in other words, on each issue.

Mr. Morin-Strom: We have to be back here anyway.

Mr. Chairman: We have not made a final decision.

Interjection.

Mr. Chairman: I understand your concern because we have worked hard, but the Legislature asked us to be back by October 10. It probably did not consider the fact that October 15 would have been easier. If we are going to extend it, we should have a good reason.

Mr. McFadden: I am not sure of the procedure on this point. When we are given instructions from the Legislature, what mechanism is there for getting an extension? Do we have to go to the House or the respective parties? Could our House leaders make agreements? What exactly is the process?

Mr. Mackenzie: If we want to meet on October 7, 8 or 9, or any one of those days, to go over the draft, do we have that permission or do we have to get permission?

Interjection: We have permission.

Mr. Chairman: Presumably, we would be putting it together--

Mr. Mackenzie: We are supposed to have it by October 10, so we would not want to go past that unless we specifically went after an extension.

Mr. Taylor: As I understand it, the House is not going in again until October 15 and this committee reports to the House. Presumably, we would be tabling a report with the Speaker or with the Clerk of the House.

Clerk of the Committee: There is a mechanism to table the report with the Clerk in advance of the House returning.

Mr. Taylor: That is with the Clerk of the House. It is not really going to accomplish very much until it is tabled in the House. I think there is some potential for flexibility between October 10 and October 15.

Mr. Chairman: What is the answer to the question about the mechanism?

Mr. Mackenzie: I would not mind three or four solid days in my riding.

Mr. Brandt: Could we not refer the matter to our respective House leaders and see whether they can work it out. They are the ones who set the agenda.

Mr. Chairman: Do you think we should formally request it up to the Speaker?

Clerk of the Committee: It would be the first report from the committee.

Mr. Chairman: I guess the informal mechanism is to work through our own House leaders, but the formal one would be to request the Speaker--

Clerk of the Committee: To report to the House that the committee required more time. That would be the committee's first report.

Mr. Chairman: Would the Speaker make a decision?

Clerk of the Committee: The House would.

Mr. Chairman: The House is not sitting. We are just talking about a week. I do not think it is a problem if the House leaders agree, that is, if we have a problem.

The committee adjourned at 3:27 p.m.



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Transcript of proceedings taken in  
Kitchener, Ontario, September 25th,  
1985.

WEDNESDAY, SEPTEMBER 25TH, 1985.

Kitchener, Ontario.

--- Upon commencing at 10:00 a.m.

THE CHAIRMAN: Can we get started now.

Welcome to Kitchener. Hope you had a good trip.

Mr. Taylor?

MR. TAYLOR: Yes, just delightful.

THE CHAIRMAN: We have this morning with us Dr. Toivo Miljan, Professor of Political Science from the Wilfrid Laurier University, and Director of the Centre of Foreign Policy and Federalism, University of Waterloo and WLU, who will be talking to us this morning. With him is Mr. D. Keith Heintzman, a research associate at the Centre of Foreign Policy and Federalism of the University of Waterloo and WLU.

Gentlemen, I understand you have some opening comment and you also have some slides you wish to show us and some information that may be somewhat surprising to us, I understand?

PROFESSOR MILJAN: I hope so. Thank you very much, David.

Gentlemen, we are going to divide our presentation into three parts. The first one will consist of a number of general points relating to trade protectionism and negotiations with the United States. Some of these points you have heard several times, but we wish to reinforce them.

Then we will move into a more detailed analysis of trade diversification in Ontario and among the different provinces in Canada as well as Canada as a whole. Then finally we will end up with what we like to think of as the piece de resistance, and we will discuss the international corporate markets from both the Ontario and the American points of view.

I will begin with a number of general points and bear with me, I have not sat through all your meetings, but I have read a number of your reports. So that some of these things I am sure you are familiar with.

I would like to begin by giving a very brief overview of the contracting spiral of world trade. This is one thing that I'm sure you all recall took place between January, 1929 and April, 1933.

During that time, world trade contracted from three billion dollars down to less than half a billion dollars. It was an incredible drop, an incredible contraction of world trade.

This took place primarily as a result of blockages to trade. The main ingredient was the Smoot Hawley Act of 1931, which increased the American tariff barriers up to an average of 41.5 per cent ad valorem, an incredible signal for everybody to draw in or to draw up their wagons in a circle. From that point on, 1931, January, you can see the drop was precipitous, there was no stopping it.

From that point also, we should recall the American president, whoever he is, has consistently been supporting free trade and has consistency fought against particular and special interests in the United States, which have attempted to restrict imports into the United States. All American presidents have consistently fought for free trade from FDR, and in fact from Hoover on. Hoover, however, lost out in 1931.

Subsequently, American presidents have done rather well against their Congressional pressures for restricting trade. Nevertheless, Johnson had to give in, over a decade ago, and shortly thereafter, some five years later, President Nixon also had to give in.

What I'm saying is that even though the American administration for over fifty years has been fighting for increasing or freeing of trade and preventing protectionism, they have not always won in every instance.

This, of course, means that it is possible that the president right now will also lose to the pressure in Congress and may have to pull some restrictive measures in order to reduce the protectionist pressures on him and on Congress. A little more of that in a moment.

Another point -- and again I am repeating that which you have heard from the Ontario Treasury .... Ontario trade consists of about eighty-five per cent on average per year of commodity merchandise and of about fifteen per cent of trade in services.

Services -- again of course to reiterate things you have heard several times and know well .... includes the whole range of business services, including advertising, engineering, accounting, financial, travel, et cetera, et cetera, the whole area of what is often called invisible.

This of course means that the main concern of Ontario in any matters relating to trade is and should be very properly that relating to merchandising, merchandise trade and that is what we will be addressing at great length in the third part of our presentation this morning.

The third point, again as has been pointed out by virtually academic appearing before you, the American market is nine times the size of the Canadian market. The main need is not for the Americans to have access to the Ontario market, but for Ontario specifically to have access to the American market.

One should also point out in this connection that both the Kennedy and Tokyo rounds led to a boom in Ontario exports to the United States; in other words, the reverse of that spiral in fact has taken place in the world, whenever there has been liberalisation of trade, reduction of barriers, both of a customs nature and of a non-tariff barriers nature. One could draw similar circles with respect to Ontario-U.S. trade in merchandising during the Kennedy and Tokyo rounds implementations.

Fourthly, what we need to do is negotiate access to the American market, not just negotiate access, but negotiate

continuing access, in order to not only survive and prosper -- and here I would like to read something, a brief paragraph from Ronald Anderson in his column on the 18th of this month, and it is a citation from Wendy Dobson of the C.D. Howe Institute. She says --

THE CHAIRMAN: Is that where he quotes (inaudible) earlier on?

PROFESSOR MILYAN: I only read the part I liked.

THE CHAIRMAN: That's it, that's it.

MR. TAYLOR: Are you saying you don't like

(Dialogue ensues)

PROFESSOR MILYAN: That interjection should be recorded as Hear, Hear!

THE CHAIRMAN: I am sorry. Go ahead.

PROFESSOR MILYAN: There is only a brief reference to you, here.

What Wendy Dobson said was this:

"If present policies are left in place, global economic forces and rapid technological change will leave Canada in their way."

Ronald Anderson continues reporting her by saying,

"Miss Dobson regards a decision to go for a comprehensive trade agreement with the United States as a key strategic decision for Canada. It will be one of the most important means of making the structural changes required for success with the least serious dislocation for

individual firms and workers."

In this connection, I would like to draw to your attention that which especially Professor Lipsey emphasized -- and he is not the only one, but he emphasized this, and I quote from E20, page 13 at 2:50 p.m. and he said,

"The Economic Council of Canada in its study of Canadian firms showed that in a typical Canadian industry over a ten-year period, forty per cent of the firms disappeared."

Meaning that at the end of any typical ten-year period, forty per cent, slightly less than half of the firms that we have, are not there any more. But other firms have replaced them.

This is nothing to do with free trade or protectionism, this happens in the normal course of economic development.

What Wendy Dobson is saying is that if we don't do something fairly drastic, the kinds of moves that are taking place in the international marketplace and in technology, are going to have more serious effects than the typical ten-year disappearance of forty per cent of our firms and we are talking about manufacturing firms here. We are not talking about consulting firms.

Now I think my fifth point is that our current relations with the United States, that is Canada's current relations with the United States, are relations of negotiating after the fact. Currently Canada and again Ontario, has no role whatever to play in the making of American trade or any other policy.

What happens is that which was typical when President Johnson slapped on a fifteen per cent surcharge on American investments going abroad, we were very unhappy, of course, we cried about the close relations that we have with the United States being not paid attention to by the Americans, and went to the Americans cap in hand after the fact.

In the case of President Nixon, when he put a ten per cent surcharge on American imports, we again were very unhappy about it, there was a lot of criticism of the Americans in our press, we went to them and got some relief from them.

I'm not so sure that this enhances sovereignty, I'm not so sure that this is the way in which we can develop an orderly market relationship with the United States.

My argument -- and this is my sixth point here -- is that we must negotiate before the fact with the Americans, we must get involved with the American decision-making process before they make these decisions, without becoming Americans.

By the way, the American State Department as well as American Congressmen and Senators, for years have been urging Canadians to understand the American political process in Washington and to get involved in lobbying.

The first lobbyist that the Canadians appointed, the Canadian Government appointed to Washington, has only been there for something like four or five years. Ontario still does not have a contracted lobbyist in Washington.

But this is the way the American system works.

There are all kinds of other foreigners who have lobbyists that are consistently representing their interests before Congress. We have believed, up until very recently -- and I'm afraid that belief is still general in the public and the provinces and among both members of the Legislature, I'm afraid, and of the House of Commons -- that the Foreign Affairs Department, the Department of External Affairs, is in charge of representing Canada's interests abroad, period. Well, that's not the way Congress operates.

Congress operates quite differently, as I'm sure you are becoming very much aware. How then does the congressional decision making work in Washington?

First of all we must remember there is what is called constant contestation in the American Congress. Congress fights itself. You have committees in Congress fighting among each other. You have the Lower House fighting the Upper House and you have the two Houses, both collectively and individually, fighting the President. It is something that simply does not happen in Canada, where you have the party system, a party system which demands solidarity, where the party leader is -- I hate to say this, but .... in reasonably autocratic control of his caucus. Of course, his caucus can overthrow him, but one can count on one hand the number of times this has happened in Canada.

You gentlemen are extension of your party policies.

In the United States, this is not the case. You have shifting coalitions in American politics and American party members do not follow party lines. They follow interest lines across parties. That, of course, is completely foreign to the Canadian way of doing business.

This is not an orderly way of doing business. It is a very messy way of doing business. Unfortunately, it so happens that this is the way in which the American system has operated for about two hundred years and there is no end in sight.

Unfortunately, it is also a fact that there are almost ten times, nine-plus times, as many Americans as Canadians. It also happens to be a fact that the United States is the wealthiest country in the world, the wealthiest economy in the world and we are inextricably tied by geography to the Americans. This is especially the case in Ontario, which happens to be located physically right inside the heart of the population, industrial decision-making and wealth triangle of the United States.

We hear a great deal of talk about Atlanta being the coming metropolis of future development. Well, look at the actual statistics; the action is still in the Chicago-Boston-Washington triangle and will be there, I think, certainly for the rest of our lives, political as well as otherwise.

We have got to pay attention to the way in which Americans do business if we want to get anything out of them. The whole purpose of this exercise, in looking at free trade, is to

discover how we can get advantage out of the Americans.

Well I suggest to you that what we have to do first of all is make certain that we understand this foreign way of doing business that the Americans operate, that we then learn to take advantage of this system, that we realize that we have to constantly pay attention to what is going on there every day in every committee, that we have to have a constant vigil and we have to lobby to prevent special interests from influencing the congressional committees, which operate on a log-rolling and courtesy basis, meaning they trade interests on an ongoing basis. There are no friends in Congress for anybody. Canada has no friends in Congress. Congressmen and Senators are not inexplicably tied to any particular interest for their political lives. They fluctuate back and forth among competing interests.

This means that if we are to take any advantage of America, changes in the changing coalition and conflicting interests in Congress, we have got to have somebody there who pays attention to these things and massages these people in such a way that they understand our interests.

My next point is that Ontario cannot lead the negotiations with respect to liberalizing free trade to the Federal Government. We have to take up our own responsibilities ourselves and get involved in this activity.

Later on in our presentation we will demonstrate the degree to which any interest in free trade with the United

States is heavily, heavily located in Ontario and Ontario has a primary responsibility for taking care of these trade interests. We have been coasting on the Federal Government's activities up to the present and quite frankly, I don't think we have done all that well.

The Federal Government has always had to take into account the competing interests of the eastern and western provinces. Ontario should look after its own interests first and make certain that competing interests, although they receive their due share of attention, do not freeze out Ontario's interest. We, I suggest, have to get involved in this activity of negotiating free trade, ourselves, together with the Federal Government of course.

We are unfortunately not an independent country, but neither is Quebec, and Quebec has done very well, as we will demonstrate, in looking after its trade interest and has increased its exports and its economic growth to a far greater extent than Ontario has.

I think this is my ninth point, to reiterate again what I said a moment ago, Ontario must be prepared to constantly participate in watching Congress, not merely being involved in negotiations right inside Congress, as well as with the President, but after we have negotiated whatever we have negotiated, we must make certain that Congress does not slip in some rider on a Bill which will change the agreement. Because as you know, in the

United States, you don't need a separate Bill to make an amendment of an existing Act of Congress, you can slip in a rider on a completely separate and different Bill. And often this is as a result of log-rolling and interests being accommodated. The President on a minor thing will say, "Ah, well, I can go along with that. We won't get into a political fight on that." Again, the American system is completely different from ours and we have got to understand it and participate in it, to gain maximum advantage from it.

The tenth point is the objective of free trade arrangements that we are seeking is to create a free trade area and not a customs union. We are not interested in melding the Canadian -- and within the Canadian the Ontario economy -- with the American economy. We are not interested in establishing common institutions and common laws and regulations. That is not the object of the exercise.

The object of the exercise is to get involved in negotiations which will lead to a free trade area, which is fully acceptable to GATT, and one of the two exclusions agreed to by GATT in 1947, in fact 1947 and 1948.

The free trade area means no more and no less than that we will not provide any barriers to American access to the Canadian market that we do not provide for Canadian access to the Canadian markets. For example, if we have -- and we do -- special arrangements with respect to the production and the selling of

beer in Canada, which restricts the production of beer largely to the province in which that beer is sold, the free trade area means that we provide Americans with exactly that same access. No more and no less. If Americans, if Anheuser-Busch wants to get involved in selling beer in Ontario, it has got to follow the same rules that Molson does, period. That is a free trade area and it is not a customs union. We must remember this. There is a difference between a customs union and a free trade area. In a moment I will make some reference to what has happened in Europe in this respect.

The free trade area also means that we have to establish, the only institution we have to establish is the Joint Arbitration Tribunal, so that when there is a dispute over one side or the other engaging in unfair trade practices, we don't have to go to the Americans -- as we have to right now -- and argue before an American tribunal and finally go to the President and say, "Please, sir, make sure we get our proper access."

If we have a Joint Arbitration Tribunal, that means both the American and the Canadian governments are represented on that and it is a bilateral decision making unit, period. These things exist in the world already and there is no reason why we can't have this kind of thing developed for Canada. That's the first thing, that's the first institution we have to do

Secondly, what we have got to do when we get involved in negotiations, is that we negotiate access to the American market on a lag basis. Because the American market is

nine to ten times the size of ours, we have absolutely no restrictions, no qualms, in asking for special treatment. This was the case when EFTA, the European Free Trade Association, was negotiated, and more recently this was the case when individual EFTA members negotiated access to the European community. I have here the agreement between the European community and the Republic of Finland. Finland is a member of EFTA.

Each country in EFTA in 1971 and 1972 negotiated an accession schedule to the European community. In manufacturing today there is free trade between the European community and individual EFTA members. We are talking about a market of three hundred plus million people, EC and EFTA, in manufactured goods in Europe.

The accession arrangements between the different countries in EC and EFTA vary. In the case of Finland, the longest period of accession was thirteen years, 1972 to 1985. In 1985 there was full, free merchandise trades between the European community and Finland. The way the Finns negotiated it was on a customs items basis. There were differing periods of accession for different customs items. Chemical pulp for example, had a seven-year period of so much reduction in both duties as well as other NTBs, and mechanical pulp had a twelve year period.

THE CHAIRMAN: Was that the same period each way? For instance, Lipsey has suggested we could take twice as long as the States?

PROFESSOR MILYAN: No, no. This was the same period each way. It was designed to protect the Finnish manufacturers and the protection for that was provided by one thing only: time for them to accommodate themselves to a large market, to go out and find markets, to become more efficient in their production to compete with other -- not by the way, other producers, and I'm talking now in the area of pulp and paper .... not with other producers in the EC, but with EC's competitors, like Sweden and like Canada. So, I'm not so sure that what Lipsey suggests would hold water. One can try it and see what happens.

I'm not so sure it is necessary to have an inequity in the access of America to Canada or Canada to America. The point is that if we have a schedule, we can make special arrangements to assist our firms in becoming more efficient. Because that is what the game is all about, becoming more efficient, in production and in marketing.

So, if we have a negotiated schedule which varies customs items, that is to say, industry by industry or sector -- I don't want to use the word sector, we are not getting involved in sectoral negotiations .... first of all, GATT won't accept it any more and the automobile arrangement, type of arrangement, is not possible any more. But we can negotiate on a product by product basis. This is not sectoral negotiations.

Indeed, that is the kind of negotiations we have

had in the past in GATT and something that everybody is very used to and won't be hard to negotiate something of that sort.

I also have the same thing for Sweden here and the schedules are different for each of these different countries. So I am saying here, finally, there is nothing new in this kind of arrangement. There is nothing new in negotiating access to a larger market. We have the examples of the European Community themselves getting involved in negotiating first of all access to each other's markets and finally setting up a custom union which customs union, by the way -- as an aside here -- does not mean that the liquor regulations in a different EC member country are the same. They are not.

All you have to do is go to Germany and to Italy, to Belgium, to Denmark, and you will very quickly realise that the regulations governing the licensing of liquor are entirely different in these countries. Yet these are all members of the European Community.

And we are not even talking about a common market with the customs union. We are talking about a free trade area. In a free trade area, the arrangements that Finland has with the European Community, that Sweden has with the European Community, that Austria has with the European Community, are what we would like to have. Which means any regulations that we have for Canadians apply to Americans. We do not discriminate.

But we discriminate in Canada right now. There is

less free trade between the provinces of Canada, not on a customs basis, not on a duty basis, as you well know, but on a non-tariff barriers basis.

Try to establish a firm in Alberta. I don't know if any of you have? Or British Columbia? In the Alberta situation, what happens, or in the British Columbia situation, what happens? In Alberta, if you are going to use half a million BTUs a year, in energy, the Alberta government insists that you purchase your building materials in Alberta. Now that cuts out Ontario completely. Half a million BTUs is something that a building like this uses up in what, four weeks? Five days in the middle of winter? So it is not very much. And I'm sure you have heard about other restrictions and so on.

Incidentally, Ontario happens to be one of the least restrictive provinces in Canada. We have very few NTBs. For practical purposes we are free traders already, both within Canada and in the United States, but the federal arrangements, of course, that apply to us are the ones that we have to worry about with respect to the Americans.

I could go on with all kinds of things, but I think it better to stop at this point and get involved in a statistical description of trade diversification in Ontario and in Canada and from there we can get into details, some of which I think are new to you, at least judging by the transcripts, and then we can get involved in all kinds of discussion.

I'm going to ask my colleague Keith Heintzman to take you through this statistical analysis now.

THE CHAIRMAN: Before you do that, if it's all right with you, would you mind entertaining some questions right now?

PROFESSOR MILYAN: Absolutely. Yes.

MR. TAYLOR: You have pointed out that the provincial posture in the past has been to be more mindful of the greater Canadian role, than concentrate on Ontario's interests at first; at least that's the message I got?

PROFESSOR MILYAN: Yes.

MR. TAYLOR: You have just now mentioned that Ontario is more open in terms of non-tariff barriers in an interprovincial relationship than probably any other province; at least, that's the message I got?

PROFESSOR MILYAN: That's right.

MR. TAYLOR: Now are you suggesting, at the very beginning you mentioned Ontario has an important role to play in the present climate of opening up discussions and negotiations for freer trade and that Ontario should look after Ontario's interests. Would that be a fair comment as well?

PROFESSOR MILYAN: Yes. Yes, Mr. Taylor.

MR. TAYLOR: Going from there, are you suggesting that Ontario change its historical posture, in terms of being the example or the leader of Canadianism -- in the proper context --

as opposed to adopting a more parochial and provincial posture and pursuing simply its own interests?

PROFESSOR MILYAN: No, Mr. Taylor, I'm not suggesting that. I am suggesting that Ontario move with the times and instead of depending on Big Brother, the federal government, to look after Ontario's interests, Ontario should take its rightful position as the largest, most populace, wealthiest province in Canada, the one with the greatest political clout, and get involved directly in looking after its interests, which -- I'm sure you've heard this before, and in fact I recall reading it in some of the transcripts before -- Ontario's interests, and I'm putting it mildly, coincides with the national interest. Rather than letting somebody else look after the national interest, we should get involved directly in pushing forward the Canadian interest, which coincides very much with the Ontario interest and vice-versa.

MR. TAYLOR: I'm asking these questions. I'm not disagreeing with your position. As a matter of fact, I subscribe to it, and have done for some years, personally. But I interpreted it as being more aggressive in the province and the province representing its own interests, not only in our own country but elsewhere and you mentioned especially a presence in Washington?

PROFESSOR MILYAN: Exactly. And the reason for this I think will become evident when we look at what Quebec has done.

Quebec, I think we have to agree, has been a pretty

good Canadian, despite all these attempts at breaking up the union. But Quebec has gotten much more preference in the international marketplace because it has taken its responsibilities to itself seriously. I am afraid that we have simply not acted -- to put it crudely -- in an adult manner. We have acted like a favourite child of papa, the federal government. Quebec has moved out and has deliberately acted as an adult. But we will look at those things in detail.

MR. FERRARO: Does Quebec have an office in Washington?

PROFESSOR MILYAN: Not only does Quebec have an office in Washington, but Quebec has something -- I am sorry?

MR. FERRARO: A supplementary, Mr. Chairman.

I'm told from various sources, that traditional federal-provincial relations almost negate Ontario having a direct physical presence there?

PROFESSOR MILYAN: That's right. Traditionally.

MR. FERRARO: You are saying we should have a presence there and I agree with you.

PROFESSOR MILYAN: Can I just make a quick rejoinder to that?

It is not only a question of having a presence in Washington itself, it is a question of having a presence in all the American markets and assisting the Ontario producers to market in all the American markets. Now, Quebec has done a

magnificent job of that.

MR. FERRARO: In what areas?

PROFESSOR MILJAN: In the whole of the manufacturing of fabricated products and things of that sort, and we will be looking at that in a moment.

MR. TAYLOR: Getting back to my proposition, a very simple one: having come through very recently talks on the Constitution and Ontario's role in that process and the image projected by the previous premier, that he was a Canadian first and an Ontarian secondly, I did not interpret that as being reticent or being a spoiled child, to use your words. It seemed that Ontario has adopted broader vision and maybe the position of compromise as opposed to a deliberate position of self-interest?

Now maybe as you say -- and I have often questioned Ontario's posture in a personal sense in the past, but what I hear you saying is that we have got a federal government to look after Canada's overall interest and the provinces should be looking after their own populations and their own provincial interests?

PROFESSOR MILJAN: Mr. Taylor, you are a politician and politics operates on the basis of compromise. But compromise only when the interests of those involved in the process are known and forcefully, dare I say aggressively, presented. I think most of you have discovered that the squeaky wheel tends to get perhaps a little more grease than it should and that's all I'm saying. Ontario has not squeaked enough in the past, and Ontario

needs to squeak a little more. Otherwise those that squeak more get more.

MR. TAYLOR: Or else replaced?

PROFESSOR MILJAN: Exactly.

MR. MACKENZIE: You say you are going to be giving us some figures?

PROFESSOR MILJAN: Yes.

MR. MACKENZIE: Because in percentage terms, most of the trade seems to be in energy and the resource industries.

THE CHAIRMAN: If there are no other --?

MR. FERRARO: Yes, Mr. Chairman, I have one question.

If I understand you correctly, you are presenting the proposition of the U.S. coming into Canada, into the Canadian market, if I understand you correctly, and you feel that it is appropriate and indeed logical for the United States brewers to come into free trade areas, or freer trade areas and still have to abide by the provincial regulations from the standpoint of "If you don't have a plant here for Anheuser-Busch, you can't distribute."

PROFESSOR MILJAN: Yes.

MR. FERRARO: My understanding, and correct me if I'm wrong, they wouldn't buy that at all. Their idea is that they were going to have free trade and --?

PROFESSOR MILJAN: The negotiating positions are always far apart, but we have ample precedent, and it is ridiculous to suggest that the Americans are not going to be

influenced by us pointing to what the Europeans have done and by reiterating the definition of free trade to them ad nauseum.

THE CHAIRMAN: Mr. Brandt.

MR. BRANDT: I was going to get into the Quebec trade figures as well, and I think after one removes the energy sector and the resource sector, as Bob was saying earlier, I think you would be hard pressed to prove that Quebec is doing a better job, particularly in the industrial sector. I know you are going to get into those figures, so perhaps we can deal with that later.

I was going to pursue the question that you raised earlier about common laws and institutions not necessarily having to be the same in a free trade area. I wonder if you might, from your perspective, interpret what the Americans mean by a level playing field? They look at that as covering a whole host of areas that cause Canadians some concern and of course --

PROFESSOR MILJAN: Like, for example? Which? You see, one can talk in generalities and at the beginning of any kind of negotiations you would like to present your maximum position, and in the so called American point of view, here we are talking about American large industrial interests and we are talking about the American governments, presidential interest, which is, "Let's get rid of all restrictions, period." The reason for this, of course, is "We are bigger and smarter and more efficient. So if we get rid of all restrictions, we will have greater advantages." Apart from the fact that historically

freeing restrictions increases the wealth of everybody.

MR. BRANDT: Can you be specific? I think that's what you are asked for. I think one specific that is of concern to certain parts of Ontario and certainly a large chunk of Canada as well, would be programs initiated and introduced by the federal government, not dissimilar to the regional development programs. The Americans have specifically zeroed in on this as being an unfair subsidy to industry in certain jurisdictions. If you look at less sophisticated provinces from an industrial development standpoint, like our east coast provinces and some of the western provinces, certainly those programs are, from their perspective, absolutely vital to the development of their particular province, and in your response to a specific example, that's one I could offer you, I think they would look at from the American perspective as being certainly less than a level playing field.

Would you from your knowledge of the subject, suggest that the Americans would still negotiate with that kind of program intact, allowed to continue, or would that have to go?

PROFESSOR MILJAN: I see no reason why we have to give in to them on this.

Norway has all kinds of regional development programs. The European Community has regional development programs which are completely different from those of Norway. Norway, of course, is not a member of the EC. Norway has a free trade arrangement with the EC, similar to Finland.

Finland has all kinds of regional development arrangements, tax arrangements for different areas of the country.

I don't see why we can't have something similar. There is ample precedent for it in Europe. Moreover, I am not so certain that if we look at the American arrangements with respect to regional development, that they do not have as many skeletons in their closet as we do? For example, the FRS, I am sure no American will even want to touch that. The Federal Reserve System, what has it got? Is it eleven different regions? Each region operates, the credit in each region operates on the basis of the needs of that region. They are different and never mind if the differences are ten per cent or two and a half per cent, the point is that they are different. Now that is a federal American operation.

Quite apart from that, each American state also has all kinds of different programs for economic development and of course the whole banking system --

MR. FERRARO: Professor Miljan, can I interject?

PROFESSOR MILJAN: Yes?

MR. FERRARO: We are told as a committee, several times, that the essential difference is that if the United States makes a treaty, a free trade treaty, the separate states are bound by it and if Mulroney signs one on behalf of Canada, the provinces aren't and is there not a big distinction?

PROFESSOR MILJAN: You are quite right. The

distinction is after the fact. After the Americans have signed a treaty which has been -- I am sorry -- after the Americans have ratified a treaty, ratified by two-thirds of the members of the Senate, and the Articles of Ratification have been deposited, then from that point on the provisions of the treaty override the individual American state's ability to act in contra-distinction to that treaty.

This however, is not the case in Canada necessarily. It depends entirely as to under which part of the BNA Act -- and let's face it, Section 92, clause 13 is still very much alive, property and civil rights, for example. If something comes under that, there's not a damn thing anybody outside the particular provincial legislature can do to effect or affect, to affect that province's activities in that area, no matter what the treaty says.

MR. TAYLOR: Yes, but in fairness -- or not with fairness .... there are other levers, as you know, in terms of federal powers, whether it is cost sharing or financial arrangements and so on, and we got into that in regard to the whole area of energy and conservation, you can change your speed limits on the highways and take tax off insulation, all provincial matters under provincial jurisdiction, and ".... if you don't do that, you don't participate in our --"

PROFESSOR MILJAN: Politics. But politics will go on whether we have an arrangement or not.

MR. TAYLOR: But what I'm saying is this may not be

such an important distinction, that is, whether it is binding or not, because there are so many levers of power that you have, with a little political will you can effect the spirit of the treaty, in any event.

PROFESSOR MILYAN: But what is more important, Mr. Taylor, is what happens while the treaty is negotiated? The Senate is not going to ratify a treaty which will abrogate the existing authority of the different American states; for example, in the area of corporate jurisdiction, it is in the interests of a lot of American corporations to have a rather free corporate arrangement, corporate registration arrangements that exist in Delaware. Now, the competing interests in the U.S. are not going to abrogate those. Politics.

So what I'm saying, I don't think we should pay too much attention to the contention that once a free trade treaty is ratified, then the federal U.S. government can do whatever it wants to with respect to the American states.

MR. TAYLOR: We have free trade in lumber now, but look at the problems we have in the U.S.

PROFESSOR MILYAN: Yes. If we had a free trade treaty, in that treaty we will of course set up a joint arbitration tribunal and have Canadians as well as Americans on an equal basis, deciding that issue. Right now the whole thing is being decided by Americans only, in Washington, and all the pressures of American politics are used to get a decision that

is favourable to Americans.

Under a free trade treaty, or whatever we call it, we would have a joint tribunal, we would have both Canadians and Americans, shall we call them judges or arbitrators .... and the decision would be made jointly. That is, of course, I think of great advantage to Canadian sovereignty.

MR. BRANDT: I wonder if you could pursue again the differences in operation between the U.S. and Canada, because I think that is very relevant to whatever might happen down the road. I used the example of regional development incentives and Mr. Taylor just touched on the lumber industry, where the stumpage question has become very much a part of whether or not we are dealing on an equitable and fair basis with our American partners.

Pursuing a form of freer or free trade, what would you say in the present method of operation that we have got, considering all of the societal programs and laws, economic incentives and so forth, would you say would be the greatest impediment or impediments, plural, that the Americans would want us to remove, in order to level off what they perceive as being inequities? You say some of these things could be negotiated, but what is that ground for negotiation? Because you can look at a host of things and let me cite some examples they may take exception to: they make take exception, as an example, to our minimum wage laws or to our occupational health and safety laws, environmental laws and unemployment insurance?

The social safety net is far more comprehensive in our country than it is in the U.S.

Another example that has just been given, is that we have probably lower rates for electricity, as they call it in the U.S., and hydro as we call it here. There are a whole series of things that could be looked upon by the Americans as being less than equitable, if you are getting into a common trading area that is fair on both sides? Could you speculate perhaps as to what some of those areas of aggravation might be?

PROFESSOR MILYAN: There would be lots of aggravation, but before I get a little more specific, let me first of all point out that although I have talked to both, I have talked to American bureaucrats, but I haven't talked to American politicians recently, in this past year.

MR. FERRARO: Consider yourself lucky ....

PROFESSOR MILYAN: I have talked to bureaucrats in Washington and in New York and I have talked to business analysts, as well as Canadian civil servants involved in analysing and following what Americans are saying on the question of possible free trade arrangements with Canada.

Americans don't know what the hell they want, first of all, and secondly I don't think they know what they are talking about. They trot out things like health arrangements in Canada. Well, you go to Senator Kennedy and he says, "We should have it in the United States." I mean, these are conflicts in the United

States itself.

THE CHAIRMAN: The bureaucrats that we talked to, I don't think any of them really raised that as a subject. We were raising it, because the politicians in New England, for instance, raised it, and they would usually try to reassure us.

MR. FERRARO: There is the stumpage question.

PROFESSOR MILYAN: Let me say this then ....

MR. BRANDT: And certainly agricultural subsidies.

PROFESSOR MILYAN: Ah, that's a good one.

Let me say this: insofar as social policies are concerned, let's look at the European example again. Why do we only have to talk in terms of looking at their naval or our naval? Why don't we look at what's happening --

MR. MACKENZIE: Because of the bilateral agreement we are trying to work out with the States, that we are discussing and --

PROFESSOR MILYAN: Yes, but let's look at how these things relate or work elsewhere.

MR. MACKENZIE: -- and how do you relate your argument that you keep using, on this?

PROFESSOR MILYAN: I'm saying these things have been done before and we should look at how other people have made these arrangements, and so we come back to them with the argument, "Look, you may want this, but we want to maintain an independent country, we want free trade, we don't want a customs union ...."

-- I'm sorry -- "... if we want a common market and a customs union then we will go ahead and negotiate similar health requirements and similar labour requirements," and what have you.

As it is, in the case of Canada, we have varying regulations in all of these areas across the country, anyway. Different provinces have different regulations.

So, I don't quite see that they can really pursue this argument to any extent. They may come back with it, but, you know, we simply refuse to listen to it.

Insofar as electricity rates are concerned, look at what the rates are in Boston and compare those with Houston. There is a tremendous difference in the United States itself and they are not going to change these things.

So a lot of --

MR. MACKENZIE: Professor, these are red herrings.

MR. FERRARO: If we refuse and they say, "Okay, we are going to give you a twenty-five per cent tariff barrier"?

PROFESSOR MILYAN: We say, "Fine. Forget it," and walk out.

MR. BRANDT: We have a twenty billion dollar trade advantage at the moment with the U.S. and we can't afford to walk out.

PROFESSOR MILYAN: Well, let's take a look at the statistics and I think that's not .... well, on certain industrial sectoral bases, which are crucial, we have no advantage at all,

and we will be talking about that in a moment.

THE CHAIRMAN: You are not saying we can afford to enter into negotiations and then get them aware of us and get them angry at us and then if they turn on us?

PROFESSOR MILYAN: You don't talk about single Americans. You are talking about a negotiating group, which is going to be just as fluid as any legislative committee ....

THE CHAIRMAN: Right now they are not terribly aware of us.

PROFESSOR MILYAN: Right now they are not terribly aware of us, but if they are not aware of us, they are not going to negotiate anything. The more aware they become -- they will become more aware of us as we negotiate and it is in our primary interest.

Now, the only interest the Americans have, from my point of view, the only interest the Americans have in getting a free trade arrangement with Canada -- I am sorry -- the only reason why the American central government, the President and the White House and administration, has in getting a free trade arrangement with Canada is to use this to beat the European Community over the head with. Okay? If I may use that expression.

THE CHAIRMAN: This is supplementary to Mr.Brandt's question as well.

We raised issues like unemployment insurance with the administration officials and they tended to say, "Don't worry about that, we are not concerned about that, that's your business."

But when we raised issues like countervail, they would look at us in horror and say, "Of course not, we are not going to change our countervail legislation," and what is to prevent them, they are not really looking at specific issues yet, but down the road, if they still have their countervail legislation, they can say unemployment insurance is unfair to such-and-such an industry.

PROFESSOR MILJAN: They may say they don't want to change countervail legislation, but what kind of free trade treaty are we going to have if an essential part of that free trade does not include the NTB arrangements which are countervail; in other words, the internal American attempt to countervail NTB?

THE CHAIRMAN: So you are saying that has to be on the table and they have to agree to change that legislation?

PROFESSOR MILJAN: Even if they don't formally agree to change it, the new law will have to supersede those parts of countervail -- which is about ninety per cent, the countervail legislation that apply to Canada. The rest of the countervail legislation will apply to the rest of the world, but not to Canada. This is a Can-Am arrangement.

The countervail legislation applies to the whole world and you don't even have to have a special exclusion, because American law operates exactly like Canadian law, and a new law which stretches on a previous law, takes precedence over the previous law and makes it void, for that particular section; and

in this case, any new law relating to Can-Am free trade would automatically supersede the countervail arrangements as they applied to Canada.

MR. MACKENZIE: You are telling us countervail, which has essentially to prove either industry is being hurt or that there is an unfair subsidy, could be selectively applied? That is one thing they told us very clearly, is not on the table.

PROFESSOR MILJAN: It may not be on the table but what happens is when we have a joint tribunal -- we have to have a joint tribunal and if you don't have a joint tribunal, you can't have a free trade arrangement.

MR. MACKENZIE: To go back to some of the questions that have been asked by members of the committee, you said also, if I was hearing you right, obviously they were not going to abrogate in their negotiations with us, individual states' rights and this is the same doggone argument. How can you say that and then say we don't need to worry about the arguments that have been made here?

I think one of the classics is the U.S. governors of the north-eastern states, who have said clearly that in terms of our fishing problems, the UIC payments are an unfair subsidy. Now we can say, "Hey, we are not going to talk with you people ...." and they can assure us social issues are not issues they want to discuss, but all they have to prove under countervail legislation is that it is a subsidy.

PROFESSOR MILJAN: Right.

MR. BRANDT: That's where the rider comes in.

PROFESSOR MILJAN: Yes, yes.

MR. HAGGERTY: They have to prove both a subsidy  
and --

MR. MACKENZIE: No, no. They have to prove one  
or the other, that is all they have to do with countervail  
legislation.

PROFESSOR MILJAN: All right. In our negotiations,  
we may have to give in on some of these things, personally I'm  
speaking, strictly personally, and I think it is a ridiculous  
operation we have on fishing.

MR. MACKENZIE: Tell the fishermen that because they  
can only --

PROFESSOR MILJAN: Sure, sure. I'm also suggesting  
we should pay primary attention to what Ontario is interested in  
here and leave that problem to some of these others. The federal  
government has got to take care of that, anyway.

MR. MACKENZIE: Let's take a look at the province  
of Ontario --

PROFESSOR MILJAN: I'm sorry?

MR. MACKENZIE: Let's take a look at the autopact  
then. It is probably the only industrial area we have got an  
advantage now. Supposing we are trying to negotiate a free trade  
arrangement and we have to open up the autopact. Do you think we

would get today the same deal we got when the autopact was brought into effect?

PROFESSOR MILJAN: I'm not so sure the autopact is such a good deal and quite apart from that -- we will look at some of that later .... quite apart from that, I have not seen any argument that the autopact should be included or changed. The autopact, as I understand it, will remain. There is no interest by American industry to change it.

THE CHAIRMAN: I think the American administration talks about putting everything on the table.

PROFESSOR MILJAN: Yes, but that again is the usual argument you get in any negotiations, they want to deal with everything. Well, when you sit down, you are not dealing with everything.

MR. BRANDT: From your experience and study of the EEC and the trade arrangements that have been made there, and the question of the autopact which was raised a moment ago, would you suggest there is any hope whatever that a free trade agreement could be negotiated that would build in some of the safeguards that are built into the autopact?

I heard your comment about the fact that the autopact may not be all that good for us? I think the general consensus is that if you were to weigh all of the pluses and minuses, Canada has come out reasonably well in the autopact, not in individual years, but certainly taken as a whole over the

last two decades it has been in existence. Do you think a free trade agreement could be negotiated using the autopact model as a form of discussion as to base, which would allow then for the development of industry in a much smaller market, when one looks at the nine or ten to one ratio, we have talked about, as well as in terms of size?

PROFESSOR MILJAN: Anything is possible and one of the seductive things that could be thrown on the table is the concept of rates of growth. Let's negotiate an arrangement whereby simply the governments, federal, provincial and what-have-you, attempt to make certain, not necessarily control, but monitor and then assist if necessary, rates of growth for different industries.

I mean, there are all kinds of things one can discuss and before you begin negotiations, it is really impossible to tell exactly where you are going to end up.

I think that we in Ontario stand to gain an enormous amount from the results of negotiations, almost whatever they will be and, in fact, I tend to agree with Professor Crispo who said, "Let's open the whole thing up and we will come ahead." We will try to demonstrate some of that in our third part, when we talk about the corporate market. And I'm sorry, but that's as well as I can answer the question.

MR. BRANDT: One final question, Mr. Chairman.

Again looking at the EEC and other trade models of

free trading agreements or freer trading agreements as they have been developed, and from your study of these particular jurisdictions, I wonder if you might give some comment on what the impact would be on trade on the part of Canada or Ontario with other trading partners, as a result of this kind of arrangement being negotiated, perhaps successfully, at some future point?

I said that in recognition of the fact that fully seventy-five per cent of Canadian trade flows to the U.S. market and I think it is now close to ninety per cent of Ontario trade is exported to the U.S. market. So I guess that we are really looking at the rest of the world by only twenty-five per cent of Canadian product, and the rest of the world for ten per cent of Ontario product that is exported.

We have a very heavy, tremendous dependency on the U.S. at the moment, and I think there are some very sound arguments raised in respect to the fact that we have perhaps even an over-dependency in that single market at the moment, and we should be trying to diversify. What do you see as being future possibilities for expanding trade with other nations as a result of drawing a tighter linkage between Canada and the U.S?

PROFESSOR MILJAN: A couple of people have mentioned this before in your hearings.

The advantage that would accrue to Canada -- and I'm more concerned with Ontario than the federal concept of Canada -- that would accrue specifically to Ontario from assuring access of

Canadian manufacturers to the U.S. market on a regularized basis, I think are enormous. First because we could then very easily entice third parties to invest in manufacturing plants in Ontario. We can even use arguments like, "Look, we have got a social security network that is greater than the American one." "Less disturbances in our plants," et cetera. All kinds of arguments. These are political arguments.

MR. BRANDT: These things don't happen to work ....

PROFESSOR MILYAN: The point is that we can entice investment here by Europeans, whatever, Japanese firms, whatever, who would then export to the North American market. As it is now, the question is, why should they put a plant in here, if they can't get their stuff into the U.S., which is the main market anyway. It is a simple argument, but I think it has a great deal of weight to it.

MR. HAGGERTY: Looking at that particular point, we could maybe look at this a little further and follow the question of Mr. Brandt, that by free trade with the United States opening up the doors, more so, perhaps there would be more Canadian capital leaving this market and going to the States and doing all the manufacturing down there -- and climate is one reason. You could find you would have a massive loss of jobs or a shift in jobs to the U.S.

PROFESSOR MILJAN: I invite you gentlemen to remember what Professon Wannacott said about Minneapolis. The climate is

harsher there and they do rather well, the climate is much harsher there than it is in Ontario and they do rather well. Ontario is much better placed insofar as the core of the market is concerned.

MR. MACKENZIE: To get back to your argument that we would be able to have third parties invest and have access to the North American market, do you not also accept the proposition that has been put to us, and previous committees of this legislature have had it painfully driven home to them, many, many of the plants we have in Canada are American branch plants that were sourced here to supply the Canadian market, which are not allowed -- and we were surprised on many of the plant shutdowns, the number of plants which are not allowed to export or do research development, and the argument has been made and made fairly effectively, that many of those plants now, once you get the free trade arrangements, will be pulled out of Ontario, because there is excess capacity in many of the head office plants, and why maintain the small plant up here?

PROFESSOR MILYAN: Yes, yes. We will answer that directly when we --

MR. MACKENZIE: It is directly counter to your argument that we just forget it.

PROFESSOR MILYAN: We will answer that question directly when we look at the corporate market and let me simply say this right now, to wet your appetite .... we have been losing

investment and employment in the branch plants anyway, over the past decade, and this loss is going to continue. There are several reasons for it, one of which perhaps is there is a certain thing called technological efficiency. But that's another story.

THE CHAIRMAN: Perhaps we could have Mr. Haggerty and then we will move on.

MR. HAGGERTY: Listening to your opening comments there, Professor, I'm looking at it from the viewpoint that perhaps we as Canadians are pushing the panic button on the matter of free trade and on the matter of discussions at the present time? I am sure that you are aware, as many of us are, that the trade deficit that now exists in the United States is one hundred and fifty billion dollars. I just want to go back to the Shamrock meeting when this was first discussed, and you mentioned about protectionism added protectionism, that Congress is moving in that area now, and one is in the area of patents and copyrights and, talking about this, here a few months ago, we had a government in Canada that was going to remove the patents here, that said we don't need them, we can register them in the United States, and God help us if we go that way, because that certainly would give them additional bargaining power there, to wipe us out.

My question is, I suppose, you know, looking at the problems of the United States, it relates more to a domestic problem there, with the huge deficit and the way the government has been functioning down there, and I suggest if we move in this

area now, it is a question of is it going to be a benefit to Canada to go in and bail out the American government in the sense we could say, you know, we are the biggest trading partner in the United States, and as my colleague the member from Sarnia has mentioned, maybe we do depend too much upon the American economy and that we should be looking to other trading partners, other than the United States, instead of putting everything into one basket? But I think looking at it, it is really a domestic problem and it is a political problem; and you talk about the politics of it, there is an election coming up this fall, I guess some of the members of Congress and the Senate are coming up before the public.

We talked about the riders they can put in their legislation and it just seems to be a political ploy, but are we being taken in on it for some unknown reason, and I suppose we have to consider that, we have to look at the American side and the American resources, that they have almost depleted all of them? These are the things we have to consider. I still think it is a domestic problem over there and it is an election issue coming up, and they are using us and perhaps we are being pushed into a panic right now and saying, "Let's jump on it."

I agree with some of your comments, saying an independent tribunal should be hearing negotiations on certain items.

PROFESSOR MILJAN: The only way we will get that is if we have a free trade association.

MR. HAGGERTY: We almost have that today.

THE CHAIRMAN: Why do you say that?

MR. MACKENZIE: We have international waters and the Great Lakes.

PROFESSOR MILJAN: Have I not heard a great deal of criticism about the way in which that operates? It's not authoritative. We are talking about setting up a legally authoritative system whereby -- I am sorry?

MR. MACKENZIE: I have heard of nobody that wants to eliminate it.

PROFESSOR MILJAN: No, no. But there are certain problems and, for example, this whole pollution question. They have no authority to determine --

MR. MACKENZIE: -- a free trade agreement to set up the mechanisms to deal with the disputes in trade.

PROFESSOR MILJAN: I think we do. I don't think the Americans are simply going to set something up, a tribunal like the International Joint Commission, with final authority to determine disputes between the two countries, without a set of rules on the basis of which that tribunal will be making decisions; and that is of course a free trade -- or whatever we call it, it is going to be a free trade area.

Now, Mr. Haggerty ....

MR. HAGGERTY: Yes?

PROFESSOR MILJAN: I have been given an opportunity

to speak for three hours, but I will restrict myself and take three to four minutes and then maybe you can cut me off ....

I again emphasize what Miss Dobson said. It is nothing new, but the point is that if we don't make sure that we have continuing access to the market which is our natural market, to which we are inextricably married past death because we are geographically at the heart of the American economic system, in Ontario, and we have got to do it. If we don't assure that, we are going to be left behind by the changing structures of economic and technological growth.

The Americans have problems which are similar, which have very little to do with their domestic exchange rate, taxation schmozzle.

MR.HAGGERTY: The American dollar being so high is one --

PROFESSOR MILJAN: It's not -- it is one of the problems but in a textile area, and I invite you to read, I'm only going to refer to it, read September 16, 1985 Business Week, a long story on the textile problem.

"There is little indication that the past decade's twelve per cent annual growth in textile and current imports will slow soon. At this pace, imports will have eighty per cent of the U.S. market by 1990."

Now, look, the American dollar wasn't strong a decade ago. The strength is the last four years. This increase in imports has averaged twelve per cent through lower American

exchange rates and up through higher American exchange rates. The story ends with the point that,

"The question is, how much of the industry will remain by the time it has learned to be competitive?"

I'm afraid what Miss Dobson is referring to and what is the underlying point in our discussion with respect to the corporate market -- that we will be coming up to -- is we have got to become competitive in the market which is our natural market, which is the United States, and the rest of the world, in a moment we will demonstrate to you, is virtually irrelevant. It is the cream at the margin and perhaps we can get to that. I will ask my colleague Mr. Heintzman to give you that detail and perhaps do it in fewer words than I have.

MR. HEINTZMAN: What I will be doing is presenting some statistical tables and there are only two of them which you can call purely statistical. What we are trying to highlight throughout all of this is, in part, what has been called the branch plant thesis. It has been mentioned here as well. There is a great fear, almost paranoia, that American firms will go back south of the border and they will rationalize down there.

Very little data has been gathered on this. We have been able to gather some to show that if you look at it in terms of what we are calling the corporate marketplace, this may not be such a bad thing anyway, providing it happened on a lag period, very slowly, which comes to the final point we are making to Ontario,

to get back to the beginning, is that the Ontario government has to become involved.

The Ontario government has to take a measure of control. They have -- you here have -- the most at stake in this entire discussion. You have seen the figures from the Ministry of Trade and Treasury and Economics and quite clearly from what we shall show you as well, too, it will emphasize this point, that you have the most at stake.

With the amount of trade you have with the U.S., with the amount of trade the U.S. has with you, you have the most at stake here, now, and because of -- and this may be only a time phenomenon at the present time, the growing rise of protectionism in the United States.

We will be showing as well that there is something you can do.

In talking about the branch plant thesis, as well, I believe there is a misguided conception that Canadian firms cannot compete. I believe that is false and we will show you there has been a decline in American firm activity in manufacturing in Ontario over the past eleven years.

What has happened is that the Ontario economy has not declined, but by the same statistics, the Canadian firms have in effect picked up the slack; that is, over the past decade the effect of the Kennedy rounds and the beginning effect of the Tokyo rounds on GATT, negotiations on GATT, remove these trade

barriers and you do see some of this branch plant phenomenon move. But what has happened is that while the American firms have been moving out, Canadian firms have been created to fill this gap.

It has important implications for trade, we will be making, and there are two. We are looking at trade not just solely in terms of exports to the United States or exports to the rest of the world, and there will be some material on that. We are looking at it in terms of exports and imports. We are stressing the net effect of trade and also looking at Ontario's negative balance of trade with the United States.

There is a lot more work that can be done on this in terms of the correlation of American branch plant activity. We will be looking at the investment patterns of American firms in Ontario, as well as shipments and most importantly, at the end, we will be coming to the employment factor.

Everything we are trying to say is that perhaps the argument that you have heard up until now on this branch plant thesis, may not hold, and it may not be as bad. Everything I have said in this preliminary introduction has been contingent. It has been mostly, if we reduce trade barriers, if American firms leave, if Canadian firms can't compete. Everything there is contingent and what we are focusing on is that in the final analysis it is contingent upon you, the politicians. You will have to make a political judgment, a decision on what is going to happen here. We are trying to present some material to help in

a general fashion.

I would like to stress as well here, that we have done this on a very general and broad basis. We have not broken it down by sector. You have the industry profiles from the various witnesses that have been before this committee, and we have looked at some of them. You will be better prepared to make argumengs pro and con as to which industry is to get the most amount of help.

What we are looking at in terms of a final recommendation, and it boils down to this, is that if you accept the premises and the data and the preliminary part of our argument, the free trade and relaxation of tariff barriers may not hurt Ontario that much. It will hurt certain industries.

If it is done on a lag basis and if you pick a particular type of industry and say we are not going to have free trade in this industry for eight years, and another industry you may say three years, it gives a grace period during which certain industries may be helped, before the free trade prerogatives come into force. It gives you a chance in fact to invest in the future.

But that is a political judgment that will have to be made by you. We are going to emphasize the general aspect of it.

THE CHAIRMAN: Can you explain the chart?

MR. HEINTZMAN: Yes. I will get to that.

From listening to the previous conversation, there are just a few more preliminary points I would like to make before I forget them.

We have talked about non-tariff barriers, to a certain extent, and it has been mentioned, the DREE situation, and of course there is the classic Michelin tire case in Nova Scotia; and things like that are carried on all the time.

Canadians tend not to see -- we hear this from the United States, they have a fantastic media machine there .... we do not hear about the American non-tariff barriers, which are just as strong. They have, for example, the industrial development bond, which is the equivalent of our DREE grant where the federal government gives to a state a bond at a lower interest rate than it would normally give for purposes of industrial development in that state, and the state in turn passes that on to the corporation. So you have the equivalent of the DREE grant, through a different monitoring mechanism.

You have as well, as has been mentioned by other witnesses, the Surface Transportation Assistance Act, with its ten per cent preference.

You have as well in the States a plethora of riders and various bills with defense production, and the fact that in certain components there has to be fifty per cent American production; and that's not in the overall end manufactured product, even in the parts themselves have to have a fifty per cent American

content. We have the same thing on the Canadian side. We also have it interprovincially. Four other provinces besides Ontario have a ten per cent procurement preference.

Professor Miljan mentioned the case of Alberta and incentives to locate manufacturing firms in Alberta, in order to gain cheap energy, but in turn they have to buy from Alberta producers. It creates barriers between various provinces and that ten per cent procurement relates not just to Canadian goods but to Quebec content and they require that in all government bids, the amount of Canadian or other provincial content be stated and they make decisions on that basis.

Ontario has been noted by Dr. Miljan, as being basically a free trader in this regard.

We have to look at this interprovincially, which is what a lot of our data will look at, as well as internationally, and the North American context.

You have a bargaining chip on your side, with the rest of the provinces, because in giving up your own non-tariff barriers, you have less to lose.

Some of the other provinces are much more eager for free trade than Ontario. I'm not suggesting that after today you go out and spread the word we have all been converted. That would be a massive mistake. But you can use it in order to gain concessions from the rest of the provinces, to open up the Canadian market to your manufactured goods, as well as the

American market at the same time. The point being -- and even looking at all the non-tariff barriers, there is a lot of juggling that can be done on three sides: the Canadian federal side, the American federal side and the Canadian provincial side, which is why we are enforcing the notion that you have to take control.

Are there any questions on these preliminary comments? Okay. I will get to this table and this one is called The Diversification Index.

To explain what this table is, it is not interpreted as a percentage, it is simply an index which has a range between zero and one. If you are down at zero, you are not diversified at all and if, for example, Ontario exported one hundred per cent of its goods to the United States, you would have a diversification index of zero.

If internationally Ontario exported an equal amount to all countries, you would have a diversification index of one.

You have to note as well in this table, along with all the rest of the dynamics involved, you have considerable changes in those indexes. Over the period from 1973 to 1984, Ontario drops in half, as you well know, because of the growth of exports to the United States alone, and to the point where they are now in excess of ninety per cent in this year, over what you had before.

What you have here as well is an interprovincial comparison and a comparison with Canada as a whole. The only

other province to have dropped in the same proportion as Ontario is Saskatchewan and all others have basically dropped, but not to the same extent; that is, in comparison with all the other provinces and Canada, you have the most at stake in this trade relationship with the United States; that is you that have to be looked at in this regard.

One of the other points, if you can just eyeball the two columns that have been lined off, Ontario and Canada, Canada tends to follow Ontario in this kind of pattern. In all the rest of the trade patterns I have looked at, and the material I have gotten from the Ministry of Industry and Trade, Canada also tends to follow Ontario in any of the changes. The rest of the provinces fluctuate quite a bit.

In point of fact, when we are talking about Canada, whether it be in terms of volume or terms of changes over time, we are talking Ontario. So the whole country is important to you and you are important to the entire country. That's all I wish to highlight here.

Basically, from the Ontario data alone, you are putting all your eggs in one basket and the basket is being shook now.

MR. BRANDT: I may not be reading the numbers right .... You said Ontario and Saskatchewan have a similar track record?

MR. HEINTZMAN: No.

MR. BRANDT: Did you mean Alberta?

MR. HEINTZMAN: Ontario and Saskatchewan are both dropping, that is, they are both focusing their trade on the United States. Saskatchewan has something in the area of ninety-two to ninety-three per cent of its exports going to the United States.

THE CHAIRMAN: I understand from Mr. Traficante, what that chart really means insofar as Ontario is concerned, in 1973, 23.4 per cent of our exports went elsewhere than the United States, is that right, and 1984, it is only 12.4 per cent?

MR. HEINTZMAN: No. It is not done that way. Because it is calculated on a statistical procedure that is close to a standard deviation, and so that you understand that, it is a cross between a standard deviation and what's called a qualitative variation, to give you a measure of dispersion of how widespread it is and how focused it is. It just happens that that bottom number does work out.

MR. BRANDT: I'm still trying to relate the Saskatchewan and Ontario figures. I don't know whether I'm reading the figures correctly. Is that (indicates) a zero?

MR. HEINTZMAN: Yes.

THE CHAIRMAN: Zero six six.

MR. HEINTZMAN: I'm just trying to give you a feel for the entire report because we will be coming back to this point again at the end.

THE CHAIRMAN: What are you tell us there, we

are becoming, as a country, and Saskatchewan, more dependent on the United States than we were?

MR. HEINTZMAN: Yes. Economically, that is.

MR. FERRARO: You don't break down value-added products?

MR. HEINTZMAN: No. That's why you see Alberta going in practically the opposite direction, due to inflation in the beginning of that period.

This is one (a slide) simply on Ontario exports, in terms of percentages and the actual figures, if you want to look at them.

PROFESSOR MILJAN: Here you have a percentage breakdown by major destinations of Ontario exports, and in actual figures, in actual figures of those percentages between 1973 and 1984, at the bottom you see a graphic representation of that.

We have tables like that, graphs like that, for every province in Canada, but this is the only one we are going to bore you with ....

MR. FERRARO: Would you do me a favour? Would you take one, say the year 1984, run across and explain to me what the figures mean?

MR. HEINTZMAN: Okay. 1984. All right. 95.88 per cent of Ontario's exports went to OECD countries. We are basically an OECD trader. Okay. So that is the percentage

of the total.

The next column is 90.1 per cent in the United States and that is a fraction of the OECD. The percentages in terms of the total that you see in relation to the OECD. What we are comparing is Ontario's trade with the U.S. with the rest of the industrialized world, and going over, we have the European OECD, basically the EC, of 4.31 per cent.

In many respects, your exports have been, if you took into account inflation, your exports to the EC have been declining over this same period.

We have less for other OECD and that is basically Japan, almost half of that is Japan's, some place about 8.5 per cent of your exports go to Japan. Then you see the other countries all over the rest of the world, including the Communist block, to give a breakdown this way. Again highlighting the point that you are incredibly involved in this whole trade issue, and perhaps we are beating it to death, but it will become very important to what we present later on.

MR. TAYLOR: That's why our mandate is structured as it is and this is timely information.

While we are on that, the comment on the so called third option and the potential is there and as a policy ....

MR. HEINTZMAN: The third option as a policy?

MR. TAYLOR: Yes.

MR. HEINTZMAN: Was clearly articulated in a

rational fashion, what we call a comprehensive rational fashion, where you sit down and look at all the options, what interest is involved, and you make your decision on that basis. It was not taken upon the basis of the concrete realities of how the international marketplace works.

With the amount of trade that was flowing between the American affiliates in Canada and their head offices in the United States, there was almost no way that you could hope to make a serious dent in there, unless at the same time you undertook a rigorous nationalist policy, to basically kick the American firms out and supplant them with Canadian firms.

However, it was not conceived in terms of those kind of practicalities. Basically the material was not available at that time, in order to make that kind of evaluation. I'm talking hindsight.

MR. TAYLOR: Are you aware of who the authors of that are?

MR. HEINTZMAN: Yes.

MR. TAYLOR: Are you ready to divulge that?

MR. HEINTZMAN: The authors?

MR. TAYLOR: Yes.

MR. HEINTZMAN: It was, of course, as everybody knows, released by Mitchell Sharpe, and one of the principal authors to it --

MR. TAYLOR: I appreciate the political role and

how things are being done under the name of the Minister.

MR. HEINTZMAN: Yes. One of the names of the authors -- and this becomes very important in terms of federal policy later on -- was Michael Pitfield. He was involved in that policy and the reorganization of the Department of External Affairs that began with the Trudeau review in 1968.

It was obvious that reorganization of the DEA was not leading to the implementation of the third option, which is one of the reasons why later on the DEA was again reorganized in 1982; and also written up by Michael Pitfield.

There may be other authors involved with that third option policy that I'm not familiar with. Okay?

MR. TAYLOR: Thank you.

MR. HEINTZMAN: These (next slide) are simply the numbers of the actual exports and we brought it along in case you had any questions about any of the other diagrams and what is involved here.

PROFESSOR MILJAN: No matter what we try to do on a general policy basis, the fact remains that the inter-corporate relationships are with the United States. There isn't one helluva lot one can do to make Japan supplant the United States as our main market. Nor will China, despite its 1.1 billion people, be our main market in the lifetime I think, of any of us, or ever for that matter. That is essentially what these tables demonstrate.

THE CHAIRMAN: We have had some comment made that it would be extremely difficult to define Ontario figures?

MR. HEINTZMAN: Yes.

THE CHAIRMAN: For many obvious reasons.

MR. HEINTZMAN: Okay. We'll get to that.

THE CHAIRMAN: I was wondering what your basis was for some of these figures?

MR. HEINTZMAN: Okay. This stuff is taken from Statistics Canada and I will explain the problems involved here, for you, right now, since you have asked.

These only give you an estimation and in fact, all the rest of the material we will be giving you, give you only an estimation. They are hard, concrete numbers, but what they actually mean is a little fuzzy, which is why I highlighted at the beginning, in the final analysis, a political judgment is going to have to be made. You cannot decide free trade on any of the material that we give you here. The material that the Ministry of Trade gives you, you cannot decide on that basis. Here you have the same problem.

The difficulty is that exports are done by Statistics Canada according to the category of what is called Province of Lading and it is also listed as Province of Lading in the actual manuals, which simply means the province from which it was packaged for export.

So if you made interprovincial flows, for example,

from Ontario to B.C., and there crated for export, it would be laden to B.C.

THE CHAIRMAN: Has any research been done to find out where that flow goes and whether it is significant?

MR.HEINTZMAN: Only Quebec maintains their own statistics and Statistics Canada, as of this year, this is a turnover year, is changing to Province of Origin. Ten years from now you will be able to re-do all this and know exactly what is going on.

But there is a bit of fuzziness here. I looked at the Quebec statistics, comparing StatsCan with the Quebec government data, and you get a variation of about at the most, two or three percentage points per country. Especially with the United States, because of the north-south trade flows. When you are talking internationally, it is a bit more of a problem, especially with some of the provinces, so these are only approximate.

When you look at the balance of trade, now this is even more problematical because the province here is listed as Province of Port of Entry. So it is where it actually comes in. So a province like B.C. is going to have massive trade imbalance because of its affiliation with the Pacific Rim and it has a lot of port facilities.

Dealing with the United States again, I do not think that is very much of a problem, from the import figures I have

compared with Quebec, because of the north-south flow. So these are going to be relatively accurate.

This (next slide) gives an interprovincial comparison of balance of trade with the United States. Ontario is that line down at the bottom, and some of the other provinces. Alberta, of course, is going to be up there (indicates) because it is subject to inflation in the latter part of the seventies and the beginning of the eighties.

THE CHAIRMAN: They had a huge imbalance in 1980 and 1981?

MR. HEINTZMAN: Yes, and still have an imbalance.

MR. TRAFICANTE: You don't mean inflation, but in the price of goods, is that what you mean?

MR. HEINTZMAN: Yes. And of course it is going to be higher for Alberta because of the inflation and oil.

Some of the other provinces there are also listed, and prior to 1976, Quebec consistently had a negative balance of trade with the United States; and after 1976 it improved, for a number of various reasons, that we will be getting to.

There is a combination of things that happened there. First of all, of course, everybody knows you had the election of the P.Q., you had a very bad economic backlash from the United States to that particular election, because of certain legislative policies that the P.Q. was known to favour and in 1977 you get a decline in American investment.

What also happened -- and it is not coincidental -- you get a decline of American imports into Quebec, and as we will show, American firms have a disproportionate tendency to import more from the United States than Canadian firms.

That situation in Quebec lasted for only one year, 1977, and in 1978 you have a reverse of policy on the part of the Parti Quebecois, where they launched a very aggressive trade program in the United States, coupled with a media program in the United States, and coupling that in turn with an industrial development strategy which focused on small and medium-sized businesses, which also turned out to be the type of business which is going to tend to export to the United States.

If you look at it in those terms -- and I will be giving you the data to back this argument up -- it becomes easy to understand why Ontario has a negative balance of trade.

Most of the data we can get is from manufacturing and it turns out that well in excess of fifty per cent of the Ontario market is controlled one way or another by American firms. It is just a matter of sheer numbers and that is changing. That is changing. But up until at least 1980, that's the way it was and to put it quite bluntly, if we lived in an international economic democracy, we would already be the next American state. Fortunately we don't.

THE CHAIRMAN: Does StatsCan include Quebec material when they give our figures?

MR. HEINTZMAN: Yes. Quebec and Ontario are about the only two where you can get this kind of material to work on and comparisons can be done. We have just worked up the material for Ontario.

MR. BRANDT: In spite of the figures that I'm sure are accurate, certainly the negative trade balance that Ontario has with our American friends, and the positive trade figures that Quebec has got, in the same context, have not translated into a stronger Quebec compared with Ontario. There is no barometer I have seen, unemployment, total export activity, when you look at all of the relevant barometers, Quebec is not only lagging behind Ontario, but lagging behind Ontario at an accelerating pace.

MR. HEINTZMAN: Yes. In the period after 1980, that is the case, and not prior to that, not the period 1977 to 1980. The problem with the Quebec government was that they started to act in that initial period of the government, as an independent state as far as they were concerned. They were very aggressively taking their economy into their own hands and working with that.

The problem is that they were reacting mostly to what the American press and the Canadian press was saying about them, and trying to mollify that particular image. After the referendum, that was no longer necessary and from the data that can be looked at in terms of the amount of support they gave to their indigenous industries, in terms of their trade offices and every other measure of trying to act as a de facto state, everything

after May of 1980 went back down. They cut from underneath them the support services that the government was providing for international activities, and then it just declined.

As well they overspent during that initial period, and it is simply a matter of over-investing and not having funds to back it up; that and the combination of heavy borrowing Quebec did in the United States prior to that, and the change in the exchange rates, and paying back in net terms more than they were actually getting, and grossly inflated interest rates when you take into account the balance of payments, of course they suffered very badly on that and mostly had to do with Hydro Quebec and having to build up the James Bay project, which they were very proud of noting they finished before schedule.... so there were a lot of problems involved there.

While we are stressing that the Ontario government should to an extent be aggressive, there comes a point where you overstep your bounds and you have to watch it.

MR. BRANDT: How many trade offices does Quebec have in the United States?

MR. HEINTZMAN: Exactly the same amount as Ontario and in fact internationally the same amount as Ontario, but they are in different locations.

MR. BRANDT: I got the impression you were suggesting that Quebec was more aggressive in the international market and certainly in the U.S. markets, than Ontario?

I don't know I can necessarily accept that?

By the way, I was the former Minister of Industry and Trade and involved in this question --

MR. HEINTZMAN: Yes, I know.

MR. BRANDT: I was involved in this question almost on a daily basis and our trade offices in the U.S. are very aggressive and the staff is being increased and all over the world as well; and driven in great part, as you are no doubt well aware, by the auto trade that goes on between our countries. But any figures I have looked at, relating to Ontario's performance in any sectors, other than perhaps the single one that Mr. Mackenzie mentioned earlier about the sale of energy to the U.S., there just is no comparison between our two provinces in terms of economic performance.

MR. HEINTZMAN: I wish I had the material here, but I don't .... because I did some time ago a thesis comparing Ontario strictly with Quebec and from the data I used, I didn't find that. This is a matter of interpretation of material and I am simply trying to present here what I'm sure of.

In terms of the trade offices you speak about, Quebec's trade offices in the United States, and I haven't been able to get the numbers for Ontario, but they almost doubled in 1978, the amount of employment, and they almost doubled world wide as well, too, and that is the number of staff they had in their international offices and -- from everything else we will

show you at the end, a table -- worked for enhancement of trade promotion, and the problem is the government has to do something.

MR. BRANDT: Certainly, their per capita output per employee is lower than ours.

MR. HEINTZMAN: Yes.

MR. BRANDT: Considerably lower than ours. If you take a look at our office in New York City and compare that with the New York office, there is just no comparison there. Ontario has got more products that it is able to sell and it historically has been selling that, over the years.

MR. HEINTZMAN: That is also in part a function of what we have been alluding to as the international market, approximately sixty per cent of all trade between Canada and the United States is inter-affiliate trade and for the period for which there is actual data to look at that, from the United States Department of Commerce, from 1966 to 1975, it was fifty-five per cent and it was steadily growing and it has been increasing that way.

So the simple fact that you have more American firms located in Ontario, means you are going to have more exports and it also means you are going to have more imports.

MR. BRANDT: Does that mean -- if I may interrupt you -- the Ontario figures could as an example, reflect a trans-provincial shipment made from Michigan to Ontario, and therefore it is an Ontario import which may ultimately -- and take pipe as

an example or some piece of machinery .... that could end up on the oilfields of Alberta?

MR.HEINTZMAN: It would seem very ridiculous for them to bring it that way, when they can trans-ship it directly west and then straight up. But it is a possibility.

MR. BRANDT: But it would depend entirely -- as an example, we have got auto activities in Canada and we may buy the chassis -- and in fact in my colleague Mr. Treleaven's riding, there would be a chassis delivered from the U.S. up to your riding, you then put a sophisticated box around it, with one of your companies, and that is shipped all over Ontario. Would that chassis not reflect an Ontario purchase in your figures?

MR. HEINTZMAN: Yes.

MR. BRANDT: That's the point I'm trying to make, and I think that would go on in Ontario far more frequently than Saskatchewan buying a product and shipping it to Ontario?

MR.HEINTZMAN: Yes, it would.

MR. BRANDT: So I'm wondering how relevant that figure might be if you took a look at it and were able to pull it apart somewhat more specifically?

MR.HEINTZMAN: I'm basically here relying on -- Ontario does not produce this data, we discussed it with the Ministry of Industry and Trade and they do not produce this kind of data.

I have looked, as I mentioned before, at the

Quebec data and they do produce their own. They keep very close track, to look out for those kind of instances, in terms of their trade with the Americans; and as I mentioned, you may get a deviation of at the most three per cent in any one year, the differentiation between StatsCan data and the Quebec government data, because of the north-south flows.

How much difference there is between Quebec and Ontario we cannot measure.

MR. BRANDT: On this point, on transportation, you say it would be ridiculous for somebody in the States to send it to Ontario by ship or train or plane or whatever, or --

MR. HEINTZMAN: I'm sorry, I didn't catch the exact American location. Did you say Michigan?

MR. FERRARO: What I'm getting at, I got the impression that Ontario, from the effects of your trial, would be excellent transportation for ports international, you can have one central depot and then go across Canada? Wouldn't that reflect to some degree on Ontario's figures?

MR. HEINTZMAN: Yes, it would, to a very large extent. You have to look as well at where all this stuff is going.

In terms of these imports, what I've found, from looking at the rest of it, it is mostly going to go wherever the American firms are, in the first place.

THE CHAIRMAN: Dr. Miljan, do you have a comment

to make?

PROFESSOR MILJAN: Just very briefly.

If Ontario collected this data in a similar way as Quebec does, the maximum variation on that line (indicates) would be three per cent, given the difference between the federal and the Quebec data in Quebec. So it might be up and down a little bit, but the general trends would not change significantly.

The other factor and the other point I would like to emphasize is that by and large American firms assemble fabricated materials here for trans-shipment to other places in the particular market that they serve. Consequently, we will find material coming from Ontario and value being added to it, then the thing will be trans-shipped. So the point still is that Ontario is the main destination of American shipments.

MR. HEINTZMAN: There is one other point I would like to make and it relates in terms of this balance of trade as well interprovincially. While it is difficult to understand a lot of what is going on, simply because the material has not been produced very much, what I have done, I have looked at what has happened in Quebec and what I have found, using the regression technique, statistical technique and from data supplied by the Quebec government, is that you have the tendency of American firms in Quebec to export those products in turn to Ontario.

So in terms of the overall balance of trade, in terms of the overall imports, you are suffering from almost a

double jeopardy there. Because Quebec protects its own market. This is also noted in a study done in 1964 for the Bi-and-Bi Commission.

MR. BRANDT: The net benefit to Quebec to this point is an increase in unemployment?

MR. HEINTZMAN: Yes.

PROFESSOR MILJAN: Of course the point is that Quebec, don't forget, began at an entirely different base line from Ontario. We have a larger population, it is better educated and the economic wealth of this province is much greater than that of Quebec. So you are beginning at different levels.

THE CHAIRMAN: Other witnesses have indicated to us great difficulties in trying to understand or rationalize on the material, the differentiation between the provinces and we appreciate your putting this together, because we haven't seen this before, and I realize you are acknowledging that there are hidden problems that can't be seen at first, and those are the things we will have to take into consideration.

PROFESSOR MILJAN: Mr. Cooke, don't take those hidden problems too seriously. Those are statistical problems and they are not going to change the locations of these lines. They will simply shift them up or down a few percentage points. It is the same thing as when one says in a survey, a public opinion survey, that the survey is accurate plus or minus four per cent, and this is nineteen out of twenty times. But here we

can say this material is accurate plus or minus three to five per cent all the time, all the time ....

THE CHAIRMAN: Except that some of Mr. Brandt's questions have brought out, to my understanding, that to some extent there are problems, the figures may be accurate, but they may not reflect the need for concern?

PROFESSOR MILJAN: That, of course, is a judgment.

THE CHAIRMAN: Yes. All right.

PROFESSOR MILJAN: Depends where you stand -- or sit.

MR. HEINTZMAN: Basically, if you follow that line of argument, we are saying we have to make all our decisions without this kind of material and it is simply a question of how much consideration you want to give to it.

THE CHAIRMAN: I certainly appreciate our having it.

MR. HEINTZMAN: And I will emphasize I am not a statistician. These numbers do give an indication, at best a reflection, you get a work-mirror reflection of what is happening, and that is better than nothing at all.

MR. BRANDT: But the economies of the various provinces are so diversified, and as an example, to put Prince Edward Island in any context with any of the other provinces, is most unfair to Prince Edward Island? Because if they get one new industry in a year, that can skew the figures by a phenomenal amount and they may not get another industry for ten years, and if you were to do a couple of things with those figures ....

MR. TAYLOR: If you want to be a Senator, the best chance to be a Senator is to come from Prince Edward Island?

MR. BRANDT: You have counties in Ontario that have a stronger economic base and a larger population than Prince Edward Island.

PROFESSOR MILJAN: Kitchener-Waterloo for example?

MR. BRANDT: Yes. Exactly. Right here. But if you were to take Quebec's sale of electricity to the U.S., and if you were to remove from those figures the trans-shipments that are coming into Ontario, I think you would have a far more accurate and far different figure?

MR. HEINTZMAN: I would totally agree.

MR. BRANDT: Because those two things in particular, have a great deal to do with the economic activity in both jurisdictions; and yet they would look like, if you were to look at those figures in the abstract and just zero in on the negative balance that Ontario has got, they would be somewhat frightening. I think if you pulled out some relevant points that are pertinent to the discussion, I think you would find an entirely different picture there. I guess that's the only point I'm making. I don't want to belabour it, but I think there are other factors in those figures that are of some importance to the discussion.

MR. HEINTZMAN: Yes. One of the ways of balancing this out is in this present graph here, which takes this balance

of trade in terms of the percentage gross domestic product, that is net effect of trade with gross domestic product for the province. So it is balancing it out that way. In an instance like that, you do see the changes, such as Manitoba is now lower than Ontario in this kind of instance, and you can see the rest of the provinces there as well.

The pluses and the minuses I admit do not change, and we can quibble about that from now until doomsday, until we get the proper data and it will be available at doomsday no doubt .... but this is still giving a better approximation and you still begin to see part of the problem with Ontario's trade.

THE CHAIRMAN: Thank you.

MR. HEINTZMAN: Keeping in mind the difficulties with this data and the difficulty in actually figuring out whether or not the numbers mean anything, if you could keep in mind what I have been trying to say about this balance of trade and this net basis of looking at the trade system throughout, which will continue, you will begin to see that perhaps free trade may not be so bad in Ontario after all and we are focusing now (next slide) on Ontario without interprovincial comparison. This simply highlights manufacturing, gross provincial product as a percentage of total gross provincial product.

We put this here for the simple points, because Ontario is definitely above all the rest, so when we are talking about manufacturing in Canada, to a large extent we are

talking about the central two provinces, Ontario and Quebec, and of those two, we are definitely talking about Ontario.

The rest of the data we will be presenting deals exclusively with manufacturing and this is important, because in any kind of trade negotiation that is carried on, it is the manufacturing tariffs which will be looked at. Most of the rest has been dealt with over the GATT rounds.

It is the manufacturing tariffs that have got people most concerned in Ontario. When we started out in 1980, at the beginning of the implementation of the Tokyo rounds, Canada's tariff on manufacturing industries' goods was about fifteen per cent. It is going to drop by 1987 to about nine per cent and the average weighted tariff across all of it will be down at that point in time to about five and a quarter per cent.

MR. FERRARO: Excuse me. Whose tariff are you saying

MR. HEINTZMAN: Canada's tariff on manufactured products will be down that much.

So we move from fifteen per cent down to about five per cent and there is also a proviso in there, which is what is meant by the weighted tariff, twenty-five per cent of the manufactured goods will come into Canada duty free. We are moving in that direction already.

MR. FERRARO: What is the American?

MR. HEINTZMAN: I don't know. I wish I could find out. I couldn't find out. All I know, from general comments of

people who write in this area, American tariffs on manufactured goods are marginally lower.

MR. HENNESSY: And they vary, of course?

MR. HEINTZMAN: Yes.

MR. TRAFICANTE: I think according to the GATT treaty, the Canadian tariff increased at about half the rate; I mean at the same percentage. The Canadian tariff was about twice the size of the American. So that at the final point, the Canadian tariff will be at about twice that of the American tariff.

MR. BRANDT: And they are blended though?

MR. HEINTZMAN: Yes.

MR. BRANDT: I think it is a fair statement to make, we have had more tariff walls, that is because of the smaller market, than the Americans have had. The wallcovering industry is an example, and we had an example of that a couple of days ago before this committee, the tariff difference between the import-export situation in that industry was four to one, we have a four times preferential rate getting into the U.S. market, as they have getting into our market. It was something like twenty-five or twenty-six per cent, something of that order, something of the order of four to one. And generally speaking, those reductions on our side, are probably overdue, in a fair trading arrangement.

I don't want to get hit by the double whammy of the lower American dollar and the lower tariff, because that would cause some chaotic situations rather rapidly. But that effectively

is the case, we have had a higher wall than they have had.

MR. HEINTZMAN: If you want to talk about it generally, and I mentioned the manufacturer there, simply because that is basically what we are going to be talking about in any free trade negotiations, by 1987. It has been mentioned before, that the American tariff will be about four per cent.

MR. TAYLOR: That's not the problem though, is it?

MR. HEINTZMAN: No.

MR. TAYLOR: It is the non-tariff barriers?

MR. HEINTZMAN: It is the non-tariff barriers.

But as I mentioned before, there is room for negotiations on both sides. If you look at what the Americans are doing, we are not the only bad guys in this matter. It takes some tit for tat, and to go into negotiations recognising that, it going to send anybody in with a considerable advantage, as opposed to thinking you are going to get in there and they have nothing to give up anyway, so you are going to be blackmailed. That is not the situation, and it is especially important now because the Americans also have a negative balance of trade vis-a-vis Canada. They will be wanting to find out what is going on here, as well, too.

MR. FERRARO: I think that is somewhat invisible.

MR. HEINTZMAN: Yes. There are a lot of things that can go on, transfer pricing, for one, which will send it away out of whack, and it happens on both sides.

PROFESSOR MILJAN: Before we go on to the next slide, for the record I would like to point out to you that Ontario's share of manufacturing, in Ontario the share of manufacturing as a share of gross provincial product is among the higher ones in the industrial market economies. If we look at Sweden, it is twenty-two per cent, Norway is fourteen per cent, in the U.S., twenty-one per cent, Denmark sixteen per cent, Germany thirty-six per cent, the very highest, and Japan thirty per cent and so on.

MR. TAYLOR: This is 1981? Do you have the projections for this year or 1984?

PROFESSOR MILJAN: These do not change appreciably from year to year. As you can see, Ontario has been fairly steady there, from a high of 25.7 down to 22.1 over eleven years. The last three years, twenty-five, twenty-three, twenty-three, twenty-two. So it fluctuates somewhat.

MR. TAYLOR: I have seen a figure, fairly current I think, that the percentage of trade, not just manufactured goods, but a percentage for Ontario was thirty-nine per cent. Would that be, the percentage of gross provincial products -- are exports?

MR. HEINTZMAN: It depends how you weight that.

MR. TAYLOR: I would like to get your information because you see so many figures and they do not seem to be consistent.

MR. HEINTZMAN: When you look at the Ontario figure, it strikes you right away as being very low, in terms of the

proportion you are talking about, you are talking about twenty-five per cent, and look at just what's going on around you, the level of manufacturing; and the problem is that is taking into gross provincial product, health services and government services and that is the whole shot.

If you want to break it down into other sectors, such as comparing manufacturing with mining and forestry, the hard production mines, of course that figure is going to be up considerably higher.

THE CHAIRMAN: Government would be in the forties?

MR. HEINTZMAN: Could well be.

MR. TAYLOR: I'm thinking in terms of Ontario and Ontario exports.

MR. HEINTZMAN: Oh ....

MR. TAYLOR: So that if you look at the percentage for Ontario and the percentage for Canada, and compare that of course with the U.S., and it is probably under ten per cent of gross domestic product.

MR. HEINTZMAN: The U.S. exports approximately twenty per cent domestic product and it varies from year to year.

MR. TAYLOR: It is twenty per cent, is it?

PROFESSOR MILJAN: Twenty per cent, twenty-one per cent now, which is up from around ten or twelve per cent ten or twelve years ago.

MR. TAYLOR: What was the Canadian domestic product?

MR. HEINTZMAN: It varies over the seventies from--

MR. TAYLOR: I mean currently?

MR. HEINTZMAN: Currently?

MR. TAYLOR: Yes.

MR. HEINTZMAN: Currently it is up around seventy per cent. You have a seventy-twenty ratio there.

MR. TAYLOR: You have an impact on our economy and a change which is pretty severe, compared with the United States?

PROFESSOR MILJAN: Yes.

THE CHAIRMAN: What is the source of the foreign figures you just read?

PROFESSOR MILJAN: These are from the 1985 edition of the World Bank's World Development Report, Table 3, Structural Production, which just came out three months ago.

The data from the World Bank for the OECD countries is quite reliable and from stuff we provided them from our own systems.

MR. HEINTZMAN: This (next slide) is where I would like to talk about what we have referred to before as the international corporate market.

From the material that I have been able to find in the U.S. Department of Commerce and from Statistics Canada, you will find, as I mentioned before, that imports into any country will depend to a great extent upon the number of foreign firms in that particular country.

I believe it was either Macdonald or the Ministry of Treasury and Economics, which presented you with some of this data, which shows up quite clearly, two Statistics Canada studies done, one in 1978 and one in 1980, that shows some place in the area of between sixty and seventy per cent of Canadian imports from the United States are destined from American-owned firms in Canada.

The one figure in terms of a balance of trade, that I could find was for 1977, and comes from a study done called U.S. Direct Investment Abroad, 1977, The Benchmark Survey, which shows a negative balance of trade for Canada, between American affiliates and their head offices, in the area of about \$1.6 billion. That is total trade.

If you take into account that this is also dealing with American oil companies out west exporting oil down south, that disproportionate balance is going to be even wider in terms of manufacturing industries. It is quite clear from all the rest of the material that this is simply the case.

So when you see things like the lower balance of trade in one province as opposed to another, and start looking at the degree of foreign operations in that province, you start to understand why this is the case, in net terms.

As an aside, the U.S. Department of Commerce study of Canadian firms, shows the same phenomenon in reverse, except the trade imbalance was something in excess of \$2 billion. We do the same thing.

MR. FERRARO: The reality of Ontario's case, Ontario is the second highest importer in the world.

MR. HEINTZMAN: Yes.

MR. FERRARO: Then, of course, there are the other considerations that Mr. Brandt mentioned, what we do with it when we get it?

MR. HEINTZMAN: Oh yes, of course, there is some value added, but one study, which I will be quoting from very shortly, one study from the Ontario government looking at this, finds that as well you have an instance here, where the imports are taking away from the secondary levels of manufacturing. These parts, et cetera, do not just all of a sudden come together, they go through various levels of production and various levels of value added. When you see a negative balance of trade, you are interfering with that to a large extent.

It is quite clear that the U.S. Department of Commerce's position on their trans-national corporations is that they are there to promote exports, and the Canadian Department of External Affairs' position is exactly the same. They play it the same way.

The only thing standing in between here, now, are the tariff barriers, that we are talking about, and specifically manufactured goods.

If you want to -- we are running short of time -- I can give you some of the data, but I believe the Ministry of

Treasury and Economics has already presented it in documents, from the transcript that I read, and it will corroborate what I have been saying up until now.

THE CHAIRMAN: We received some documentation from them and we will be hearing from Mr. Macdonell again next week.

MR. HEINTZMAN: Just to refresh your memory and go over it again, we are looking at this from the net point of view, and simply looking at exports alone is not going to tell you how well we are doing. You have to look and see how well somebody else is doing on our turf.

I would like to highlight now, I'm not saying, I do not extrapolate from this to say let's kick the Americans out. I am not saying that at all.

I am saying let's try and understand the complexities involved in here. It fits in with what is called the branch plant thesis and if you look at it in those net terms, if the trade barriers are opened up, sixty per cent of the continental trade is in the corporate marketplace; and if the American firms move south, those imports will move south with them.

The clincher comes, can Canadian firms compete when the American firms leave? Can they compete in their own marketplace? Answer: the rampant fear that we hear from time to time, saying Canadian firms cannot compete, I believe is false -- and we will show that to you at the end -- whether you look at it in terms of shipment or whether you look at it in terms of

employment, Canadian firms have been what has been boosting the Canadian economy, over a period of time when the American firms have been leaving.

That is, the shock of any pull-out, if it is progressed gradually over time, will not be severe, provided we give our own national firms the opportunity to compete; and if over a period of time, a period of grace, in which you can support those firms, your net effect will improve drastically and you will not have to worry about this negative balance of trade business. That's the thrust and I will be going through the proofs for that argument right now.

This is a quote from a study called Foreign Ownership and Employment in Ontario, done in 1982, by Charmaine Berry for the Legislature.

In terms of exports for foreign affiliates, it says,

"Although the Ontario Select Committee on Economic and Cultural Nationalism did encounter some specific examples of aggressive export market development on the part of foreign-owned manufacturing subsidiaries in Canada .... a more common and widespread phenomenon relates to export restrictions or lack of development of export markets associated with foreign ownership. The branch plant structure was developed to service the Canadian market or, in past decades, the Commonwealth markets. Not only

is this structure inefficient and internationally uncompetitive and thus not conducive to the export of manufactured goods, but there are also other effects: through restrictions in technology and licensing agreements -- which affect even Canadian owned firms -- management arrangements, brand name agreements or management direction, Canadian subsidiaries are not likely to be aggressive in developing export markets, especially where there is a possibility of competition with affiliates."

This one being for the host country, and that's the end of the quote.

Quite clearly, from the material that they had gathered, American firms do not tend to export as much as Canadian firms, in the Ontario market.

PROFESSOR MILJAN: The point made earlier.

MR. HEINTZMAN: From the import side, it says, imports:

".... reduce the level of economic activity, including employment, in Ontario. If foreign investors obtained a larger proportion of their purchases in Ontario, provincial employment opportunities might be significantly improved. Such an improvement could be achieved in the context of greater overall efficiency if foreign investors rationalized their production in Ontario."

If that happens.

I'm simply pointing out, from everything else that has been looked at, you will begin to understand why you are having this kind of net effect in Ontario.

What we will be looking at now is some of the investment data, which I believe you had asked another member to provide for you, but they couldn't find it, so you can look at this (next slide) mostly in order to give you an opportunity to try and refute this thesis, if it is possible.

This is capital expenditures in manufacturing alone. So it is only part of the economy. What you see there on the graph is the proportion of U.S. firm investment in Ontario, as a ratio to the rest of Canada.

Quite clearly the majority of American investment in Canada is in Ontario. From the rest of the material we have looked at, in terms of corporate taxable income, it also becomes apparent that when you are talking about manufacturing and the operations of American firms in Canada, you are also talking about Ontario; and when you are talking about manufacturing and free trade, you have to be talking about Ontario.

Again, one of the highlight points here is you definitely have a very large stake involved here. Basically, you have a right to become involved, because of the sheer level of the material that is being dealt with, in investment and in trade.

You see in the other two lines, a comparison of

Canadian firms and American firms in Ontario. Line 2 is American firms' investment in Ontario as a percentage of the total and line 3 is Canadian firms' investment in Ontario as a percentage of the total. Tend to coalesce and move around each other. This is a very short time period and this is the only time period for which material can be gathered.

What you might tend to see there is that in effect you are getting a balance out between the two. These are just capital expenditures and just one side of investment. That is in effect new investment expenditures, on machinery and construction and buildings, et cetera.

When you look at it in terms of capital and --

MR. FERRARO: Excuse me. What is line 1?

MR. HEINTZMAN: Line 1?

MR. FERRARO: Yes.

MR. HEINTZMAN: That is U.S. investment in Ontario as a percentage of U.S. investment in all of Canada.

MR. TRAFICANTE: What is the column right beside that?

MR. HEINTZMAN: The extreme right?

MR. TRAFICANTE: There is line 1 and right beside that, another one?

MR. HEINTZMAN: Those are Canadian firms, and you have other foreign firms in Ontario as well.

PROFESSOR MILJAN: If you look at Ontario as a

percentage of Canada, that is the second set of three columns, the total percentage of manufacturing, the total capital expenditure by manufacturing firms in Ontario, as a percentage of the total expenditure of manufacturing firms in Canada, was forty-five per cent in 1984. All right?

The total percentage of U.S. firms, the total capital investment by U.S. firms in Canada -- I have to back up and start again ....

The total capital investment by U.S. firms in Ontario as a share of the total capital investment of U.S. firms in Canada is sixty-one per cent; in other words, fifty-nine per cent, sixty per cent roughly, of American investments in Canada in manufacturing were made in Ontario. All right?

MR. TRAFICANTE: And the next one is the percengage of --?

PROFESSOR MILJAN: -- of capital investments in Ontario as a share of capital investments in Canada, of Canadian firms.

MR. FERRARO: Do you have a dollar figure?

MR. HEINTZMAN: I could dig it out later and give it to you, and if you want to know where it comes from, it is Statistics Canada, and the catalogue number is 61-215, called Capital and Repair Expenditures of Domestic and Foreign Controlled Firms in Canada.

MR. TRAFICANTE: My question though is, from what

you have just told us, the central three columns, the one under U.S. firms and the one under Canadian firms, should add up to one hundred per cent?

MR. HEINTZMAN: No.

MR. TRAFICANTE: Minus the international?

MR. HEINTZMAN: No. Because, if you had all Canadian firms, all Canadian manufacturing firms located in Ontario, the Canadian figure would be one hundred, right, and if you had all American firms in Canada located in Ontario, that figure would be one hundred. That would add up to two hundred.

It is difficult working out how it is calculated. What it is simply trying to show here, is the degree of American investment in Ontario as compared to the rest of the country.

THE CHAIRMAN: What it shows us is that Canadian investment in Ontario is slipping slightly?

PROFESSOR MILJAN: Yes, that's true.

MR. HEINTZMAN: Yes.

PROFESSOR MILJAN: And American investment is remaining steady with some ups and downs.

MR. HEINTZMAN: The actual dollar figures are there as well, on the extreme lefthand side.

PROFESSOR MILJAN: Total expenditures in Ontario of American firms in Ontario is the second column, and Canadian firms, the third column. Those figures perhaps are not as disparate as the percentage figures, as you can see. Pretty

healthy Canadian investment in terms of dollars: \$1.7 billion, compared to American \$1.9 billion in 1984.

MR. HEINTZMAN: That is in effect what you could also call new investment in manufacturing.

What this is (next slide) is capital plus repair expenditures and the same format. What that simply means is instead of having only new investment coming in, you are having investment that is put in simply to upkeep and maintain and keep an operation going in Ontario. So it is in effect a better look at what is happening totally with investment, but it does not give you the kind of new investment that is going on.

PROFESSOR MILJAN: If we could take time off and look at the two sets of figures, these ones and these ones, you would see there are variations, given the levels of economic activity. During recessions, new investment by Americans declines, whereas maintenance investment, repair investment, continues at a fairly high level for example.

MR. HEINTZMAN: Okay?

THE CHAIRMAN: How many more do you have?

PROFESSOR MILJAN: We could spend another three hours but ....

MR. HEINTZMAN: We can skip this one.

THE CHAIRMAN: Would you be able to prepare copies of that or at least one copy?

MR. HEINTZMAN: I have a spare set of photocopies that you can have, as soon as we are finished, right here.

THE CHAIRMAN: Perhaps you could highlight whatever you wish to and wrap it up?

MR. HEINTZMAN: Certainly. Okay.

The one slide that I'm deleting and not bothering to show you simply highlights everything else we have been saying: that you have a disproportionate amount of American activity in Ontario as compared to Ontario firms.

This (next slide) I believe is the important one because it looks at the value of shipments of American versus Canadian firms in Ontario, in the first one.

You will notice the decline in terms of percentages, such as U.S. firms' percentage, the decline, and the Canadian firms, the percentage is an increase and balancing out.

The one table I did not present with this, has to do with the number of foreign firms in Ontario and the reason the American is going down is simply because the firms have been leaving Ontario, American controlled firms, either have not been staying or when they have died out, new ones haven't come in.

But they have been replaced with Canadian firms. You can see the level of shipments over on the extreme lefthand side, is not suffering that much damage, either, because of that.

This is over the period of the implementation of the Kennedy round and the beginning of the Tokyo round; that if it is phased in over this slow period of time, the effect of the branch plant moving out may not be that severe.

MR. BRANDT: Did you not then jump to the conclusion in your earlier remarks, where I think you indicated that as a result of that happening, that would lead you to believe the branch plant over a period of time could be phased out or at least minimized in terms of its impact on the economy and would be replaced by Canadian firms? Is that not in the present context of tariff barriers and non-tariff barriers and non-free trade environment, if you subjected those self same Canadian firms, ostensibly ten per cent the size of their American counterparts, and I could give you industry after industry after industry .... would those same Canadian firms not collapse without protection, and how do you come to the conclusion that all would be well and that we could in fact compete openly, if this scenario continued to develop?

Because what is happening there statistically is developing with the historical and traditional trade walls in place and once having removed those, I ask you what is your speculation as to what would happen then?

I would have to suggest to you, many industries that have come before us, and a great number of people, who have spoken about this question, they seriously, very seriously question whether or not those firms can survive, whether they be American or Canadian branch plants.

MR. HEINTZMAN: Yes, I understand that and I have heard that argument.

First of all, the first point we have to make

and understand, is that we have not been living behind solid tariff walls during this period. They have been slowly declining, very slowly and very gradually.

We are not suggesting that you make a free trade agreement that says in June of 1987 we will have no more tariff barriers. That would be ridiculous. Because in an instance like that, the scenario you are presenting would come about, most definitely, because of the amount of capital the Americans can use to support their own firms. There is no question of that at all, whatsoever. We are not saying that.

We are saying it has to be drawn out, and one of the points we want to stress and has been talked about by previous witnesses, such as Professor Wannacott and Professor Clarkson, we do it over a long period of time. They have been suggesting, I believe, five to ten years. For Ontario, I would suggest you go for the ten-year period, and the longer the better, to gradually move it in.

THE CHAIRMAN: I think Professor Clarkson said it is already happening?

MR. HEINTZMAN: Yes. On that kind of time lag basis, when you have industry by industry trouble .... and I admit this is general, this is giving you an aggregate, and these figures can lie industry by industry.

If you can get down to a point where you are looking at a ten-year period or perhaps longer, you have a grace period

there, in which there is a chance to develop the industries that are going to be hardest hit, or else from the positive point of view, that's the positive outlook, and the negative outlook is to figure out which ones you want to let go.

But it does give you the opportunity then, on an industry-by-industry basis, you can phase it in, and that's where the real haggling begins.

On a general basis, if that can be worked out, if that kind of detail can be worked out, I do not see a problem, provided it is done over that kind of period, with those considerations in mind.

By the way, all this stuff can be done, broken down into twenty industrial classifications, to give you a better outlook on what is going on.

PROFESSOR MILJAN: On a general point, Professor Clarkson was talking about a reduction in tariff barriers, and we are saying, yes, the reduction in tariff barriers -- during the period in the reduction of tariff barriers, these data here demonstrate the Canadian firms have been doing very well indeed.

We are saying that in the future it is not mainly a question of tariff barriers any more -- I mean we would be down to, what is the average -- five per cent or some such thing?

MR. HEINTZMAN: Yes.

PROFESSOR MILJAN: And that can be overcome by the American dollar jumping up three per cent overnight, for

example.

So the tariff barrier questions are not really relevant across the board. They are relevant in certain specific sectors still, shoes, textiles, things of that sort, but the main point is that we phase in or out, really out, the various kind of NTBs and the special supports, over a long period of time.

That is, of course, what we have to negotiate with the Americans about and they have to do the same thing. They have just as many NTBs as we have, although they call them different things. They operate through different mechanisms, but they are the same thing. That is what the negotiations really would be about, as I see it.

MR. BRANDT: It is fair to say, though, isn't it, that while we can have an erosion or a reduction of tariff barriers, there has been another form of protection, a very distinct and measurable increase in non-tariff barriers? So, while one has been coming down, as a reflex major reaction, others have been going up, and perhaps the most heinous of all of these, from our standpoint, is the preferential buying policies of I think some thirty U.S. states?

PROFESSOR MILJAN: Right.

MR. BRANDT: Where there are certain products, transportation as an example, you can't sell a bus into certain U.S. states, if you could beat their price by twenty-five per cent.

PROFESSOR MILJAN: Absolutely.

MR. BRANDT: And that's quite wrong?

PROFESSOR MILJAN: Absolutely, and they have got lots of that.

MR. BRANDT: So again, these figures reflect an environment where tariff barriers are coming down, but I think it would be somewhat incorrect to suggest that that environment is in fact the total situation? Because you have got the non-tariff barriers increasing at the same time?

PROFESSOR MILJAN: While the NTBs in the U.S. have been going up and going up, yet the Canadian firms have been doing rather well; and our argument is the NTBs you are talking about, have been increasing during this period that the tariff barriers have been coming down, yet we have been doing very well. And we can do even better if we phase out the American NTBs. But we have to compensate, in that ours are out as well. But ours have not been going up at the same rate as the American.

We just finished saying a little earlier that Ontario has got virtually no NTBs, virtually no NTBs. There are some Canadian NTBs, but how many of them really apply to manufacturing in Ontario?

A lot of them apply outside Ontario to what really are marginal industries, marginal in the U.S. as well as in Canada. The whole fishing operation in the U.S. is very, very marginal, and it is very, very marginal in Canada too.

MR. FERRARO: What about forestry?

PROFESSOR MILJAN: Forestry is not marginal in the United States and neither is it in Canada. No NTBs there.

We really haven't been increasing them and the reason why we did so well in the American market -- and why it is a problem for the Americans, for American industry, is strictly because of exchange rates, which are not going to be touched by any free trade agreement anywhere, because we are not going to get into a customs union with the Americans and we are not going to have a common foreign exchange policy, we are not going to become the United States.

So those problems will continue, but if we have an arbitration tribunal, to which Americans would be forced to appeal their unhappinesses, we would be in much better shape in countering these things than we are now, going cap in hand to the Americans and clearly ".... those foreigners are being cruel to the Americans --" ....

MR. BRANDT: The Blue Jay fans?

PROFESSOR MILJAN: And Blue Jay fans.

THE CHAIRMAN: Dr. Miljan and Mr. Heintzman, we appreciate very, very much the presentation and the work you put into it. Obviously you geared it specifically to our concerns in Ontario. This was something we had been asking for, and we appreciate again, very much, your input.

PROFESSOR MILJAN: Thank you very much, sir, and thank you very much, gentlemen.

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LEGISLATIVE ASSEMBLY

SELECT COMMITTEE ON ECONOMIC AFFAIRS

Afternoon Session  
September 25th, 1985



THE CHAIRMAN: Good afternoon. We have Dr. Paul Beamish, Assistant Professor of Business Strategy and International Business at the School of Business and Economics, Wilfrid Laurier University, who was highly recommended by a former student to me, and that's the reason the invitation went out.

We appreciate your coming here. We understand Dr. Beamish has a short presentation, which I have suggested he read to us in case there are some members of the Opposition who cannot read .... and then we will entertain questions.

PROFESSOR BEAMISH: Thank you very much, Mr. Chairman.

Ladies and gentlemen, first of all I would like to say I appreciate the opportunity to speak with you because this is an issue, as someone who teaches international business for a living, is near and dear to my heart.

I have looked over the materials that your Clerk has shown to me, and it points out you have been listening to presentations since July. I do not mean to add anything here that you have already seen before, and in fact, my intent today was to not intentionally, but as it turns out to complicate things a little bit further for you in terms of the whole question of free trade.

The area I would like to focus on is international business training, in particular the amount of training which our graduates in Ontario and in Canada have right now; that is, how

well prepared they are, to implement freer trade with either the United States or other countries.

At this point I will return to the text of the paper, I intentionally kept it short, but of course will welcome questions when we are finished.

MR. TAYLOR: Could you clarify that last statement of yours? How well prepared .... I wasn't sure ....

PROFESSOR BEAMISH: I am concerned that our business graduates are not well trained in international business.

MR. TAYLOR: I see. I surmised that might have been the conclusion, and yet the way it was stated, it could have been the other way?

PROFESSOR BEAMISH: Okay.

Trade and International Business Training.

Free Trade, Trade Enhancement, Freer Trade, Fair Trade. Whatever label we use, more trade with the United States and other countries means two things -- more imports and more exports. Achieving more imports presents few difficulties -- sellers of goods and services from other countries are already lined up ten deep. Achieving more exports, however, is not as simple.

The high Canadian standard of living is very dependent on exports. In fact, the export of goods and services generates about thirty per cent of Canada's gross national product. That Canadian exports will increase as a result of reduction in

other nations' tariff levels is certain. However, given that Canadian tariffs are declining -- and this is nothing to do with the present discussion, they are declining as a result of GATT -- given that they are declining, the question remains as to how well positioned Canada is to ensure that its exports will increase sufficiently to balance its increased imports.

Increasing Canadian exports is much more than reducing other countries tariffs. Tariffs are only part of the trade equation. Many other considerations such as the right quality product, at competitive prices, in adequate supply, with provision for customer service, in firms containing competent well-trained international managers, are at least as important.

On this latter point, international business training and its implication for improving Canadian export performance, there has been little public discussion. Yet, results from a recent study on Canadian exporter performance, coupled with the actions of a large number of American business schools, strongly suggest a need to examine the extent of international business training being provided in Canadian business schools.

The export study -- carried out by myself, Anthony Goerzen and Hugh Munro -- was based on a 64 question mail survey of one hundred and sixteen exporting firms in Toronto -- I should say we actually sent it to a larger group of firms and we had one hundred and sixteen responses, about a twenty-five per cent response

rate as it turned out, which is considered satisfactory and quite acceptable in academic terms. This study had in turn been based on extensive literature review and a series of twelve interviews in exporting firms. The questions in the mail survey were wide ranging and designed to determine how export performance might be improved. One of these questions asked how much training in international business the people involved in export operations had. The composite measure of high export performance used here was export profitability higher than domestic profitability, plus an upward trend in total export sales, plus higher than average export intensity.

The data analysis revealed that international business training was positively correlated with each of five variables which in turn were each positively correlated with export performance, and at this point I would like to draw your attention to page 6, the exhibit.

You will note there, please, the five variables in the centre column are the ones that influence export performance. All of these five variables were positively correlated in turn with increased amounts of international business training and all were statistically significant at the required levels.

These variables, in summary, were related to such things as goal-setting and export marketing planning - areas in which our business schools are quite capable of providing adequate training. Yet how many students are receiving this training?

Not all of Canada's fifty business schools even offer International Business course electives. The things we would be talking about, when we are talking about free trade, they don't even have the option of taking a course in the area.

More significantly, except in the case of a few programs which permit a business major, there are no Canadian business schools with a required course in International Business. Why should this concern us? What is the situation with our major training partner?

In the United States there are at least eighty business schools where their students are required to take at least one international business course, and this number of universities is increasing. As well, the Academy of International Business, a prestigious U.S.-based academic group, now goes so far as to present a Dean of the Year Award to the Business School Dean who has gone furthest in requiring students to take an international course or by internationalizing his school's curriculum.

Certainly another way of ensuring that this international business training takes place is by internationalizing the entire business school curriculum. Two hundred and forty-five North American universities have AACSB accreditation -- and I believe it stands for American Association of Colleges, Schools and Business and they have this type of accreditation which requires that students are exposed to a certain standard level of internationalization in their courses. However, only two of

of the two hundred and forty-five accredited universities are Canadian, and neither is in Ontario.

While this measure does not capture the strong efforts which a few Canadian business schools have made to internationalize the thinking of their graduates, uncertainty still remains as to why this type of thinking has not been institutionalized. Certainly it is not a function of no place to provide the opportunity, or unwillingness of university administrators to require students to take certain courses.

The typical Canadian honours business student must complete forty to forty-eight one-term course equivalents to graduate. Of these, over half will normally be in business with about half again being required courses. Nearly all Canadian business schools require every student to study accounting, for example. Yet, providing knowledge of how to do business in the international marketplace is left to student preference and/or chance exposure to faculty with an international orientation.

Having sufficient numbers of business graduates trained and oriented to international business is too important to leave to chance. With the increased imports that will follow the reduction in Canadian tariff levels, many Canadians are rightfully concerned about the impact on domestic employment. Nonetheless, they have reassured themselves with an unstated and unexamined assumption. Many people are assuming that even if certain industrial sectors suffer, Canadian salesmen in most other sectors

are only waiting for the green light of reduced foreign tariffs and that growth in these sectors will more than compensate for reductions in other areas. But do all Canadian firms have an internationally trained salesforce and senior managers with an international orientation? Are Canada's business schools meeting the present need for graduates with these skills, let alone an expanded need for these skills?

The same exporting study revealed that thirty per cent of firms -- irrespective of their present size -- this is thirty per cent of one hundred and sixteen exporters, these were all based in Ontario -- they had begun exporting as the result of an unsolicited export area. Somebody sent them a cheque and said, "Send your product" and they were not even trying to do business internationally.

This suggests, first of all, enormous untapped potential in our existing non-exporting firms. In addition, a large portion of Canada's present exports is intra-company, from the Canadian subsidiary to the foreign parent. This has not required an extensive international business background within the managers of the Canadian subsidiaries. Their primary task has been to meet a production allocation, rather than "beating the bushes" in other countries looking for export sales.

As a signatory to the General Agreement on Tariffs and Trade, Canada has correctly been moving towards freer, increased trade with all countries. Whether future reductions in trade

barriers occur sooner rather than later, or in certain sectors only, Canada needs the business graduates with the proper types of training on which actual experience can build. Whether this training takes place through internationalizing business school course curriculum or by introducing required international business courses, one thing is certain, the longer we sleep, the stronger our competitors become.

THE CHAIRMAN: Thank you very much. That is a good point and it has not been made before.

Mr. Ferraro.

MR. FERRARO: I have a question for Dr. Beamish, thank you, Mr. Chairman.

That was very interesting and might I say, personally, a refreshing change from what we have been getting and to some degree regurgitive -- and I say that respectfully -- of facts that we were all aware of.

I'm not quite sure though, and correct me, whether or not we as a committee or politicians, have a lot to do with resolving this particular problem, outside the practice, you know, of some of the industries facilitating some exchange programs and so forth, which is, I understand to some degree, already the case? Shouldn't this presentation be made to the boards of governors of universities or the deans of departments, and I say that respectfully?

PROFESSOR BEAMISH: Yes, yes. At Wilfrid Laurier

-- and I can speak about that university in particular -- my dean is in the international business area and he is very sympathetic and in agreement, I would say, with the objectives of internationalizing the curriculum.

The reality is most people simply just don't know what it takes to do business internationally. Okay? There has been this assumption -- there have been many assumptions, and one of the assumptions has been that the States is easy. No problem. We only need the example of one of our major Canadian companies, Canadian Tire, and their experience going into the U.S. That has cost the president of that company his job. There are differences.

Fortunately they are not major differences and they can be overcome, but there are differences.

Now back to your point at hand. Who should be making the change? Who should I be presenting this material to? I first of all wanted to make it available to this group, because I believe it is an important issue. I don't think people are thinking four or five steps ahead. Fine. We may come to the point of making the decision that we want freer trade. When it comes time to implement it, managers have to do it. There has to be somebody with an appreciation of the complexity of international business and the difficulties it will entail, who will go out there and sell the product.

The data that I have got suggests, first of all, we are not even meeting existing demand and fortunately, the

problem is not product, we seem to be producing good quality products, or we would not have those unsolicited export orders.

The problem is our aggressiveness first of all, and secondly, I think it is our whole level of training that pervades our business organizations. They just aren't thinking on a knee-jerk basis internationally.

Now, I still haven't completely answered your question. I can make this available to the president of my university, but it is an uphill battle. We have at Wilfrid Laurier now got five international business courses on the books. No place in Canada has a required course. I think we are falling behind.

MR. FERRARO: I agree with you.

PROFESSOR BEAMISH: I would like to make this aware to the group, in the hope that perhaps they can pass it on to the Minister of Education, if that would be the appropriate person to receive a copy of this, or whatever body.

But I think it is a point we haven't seen yet and we haven't had any discussion about this.

MR. FERRARO: Let me just conclude, and I did not mean to insult you by my question.

PROFESSOR BEAMISH: No, I didn't take it as such.

MR. FERRARO: I think it is a very valid point and if we are going to make recommendations, in fact, somebody may want to make recommendations to the government, who can take it

from there.

PROFESSOR BEAMISH: Yes.

THE CHAIRMAN: Mr. Knight.

MR. KNIGHT: Would it be fair to say that especially in the business training discipline, that it is the business sector that drives the educational curriculum?

PROFESSOR BEAMISH: No.

MR. KNIGHT: In that they themselves have not recognised the need for it, so that the universities are not providing that training?

PROFESSOR BEAMISH: I don't think that would be a fair statement. I think that the unfortunate reality of some of our universities is courses are derived on the basis of professorial interest, in many respects, and certainly the bulk of the courses have to meet existing demands and the bulk of the courses fall into the major functional areas.

We have to give people some sense of what accounting is all about, what financing is all about, what manufacturing is all about, and what organizational development is all about, and so forth. We need the basics.

But to use an example, at the University of Western Ontario, about five years ago, they introduced a new required course, and what required course would they introduce there? They introduced a required course on business-government relations. Now, to me that is totally inward looking.

MR. TAYLOR: Excuse me. On business-government relations that obviously means more to me than you, because it can be domestic government and foreign government?

PROFESSOR BEAMISH: It has primarily been domestic government and it is understanding business-government relations in Canada. That is the nature of their course.

Now, to me there is room obviously for the study of that material and I think our students have in the past had a poor appreciation of the relationship between the two groups. My point is, if we are to be a trading nation, we have to be outward looking and to me, if you are going to add required courses, don't add required courses in things like business-government relations. You don't add required courses in things like accounting, and places like Harvard have dropped them now; you don't have to take accounting at Harvard any more. They figure you will just hire those people.

You don't necessarily have to take required courses in economics, yet most, if not all Ontario universities and Canadian universities take required courses in most of those areas.

I think we are not thinking outwardly.

MR. KNIGHT: If I can follow up on that response to my question, it seems strange to me, that if the business sector recognises a need for that kind of expertise, that the universities would not offer it and that the professors would

not recognise that and take that as being the course that they perhaps should introduce? Or are you suggesting that indeed is what is happening?

PROFESSOR BEAMISH: In my fourth year course -- I only teach fourth year courses and MBA 2 courses, so I see students just before they graduate.

One of the things I do in my course -- if I can answer this with a bit of a story ... I use a project each year which is worth forty per cent of the student's mark, and they have to go out and work with a company. I have no trouble whatsoever in finding compies who would like students to work with them on a real world project in their international areas.

MR. FERRARO: Do they get paid for that?

PROFESSOR BEAMISH: No.

MR. TAYLOR: There is a government program that co-sponsors this type of thing, financing the internship program?

PROFESSOR BEAMISH: Yes, the internship program. It is a fantastic idea. It's a great idea.

MR. TAYLOR: So that you have some government stimulus there?

PROFESSOR BEAMISH: Absolutely.

MR. TAYLOR: And there is a need for that kind of experience?

PROFESSOR BEAMISH: Absolutely. That's right. Okay. But the problem has been I don't think enough companies

are taking up the government on that offer, and from my own experience -- and I don't want to open up a can of worms or anything.... my own experience, my own personal familiarity with some people who have been sponsored by that program, is that they really haven't lived up to or been forced to live up to the terms of reference.

I believe the terms of reference specify a certain percentage of the time must be spent outside of Canada in export marketing. I am not sure that is enforced. The two cases I'm familiar with, it has not been true in either case.

MR. KNIGHT: One further question, if I might, following up on international training. I think you have been addressing the undergraduate level?

PROFESSOR BEAMISH: This is completely true at McMaster as well, as far as the required courses.

MR. KNIGHT: And the MBA programs?

PROFESSOR BEAMISH: Yes.

MR. KNIGHT: It is not compensated, after people work in the workforce for a while, as far as businesses being able to find a course they can send them to?

PROFESSOR BEAMISH: There are electives and my point has been though, this is such a fundamental change we are talking about in Canada, going towards free trade or whatever form it is going to take, it really means we have to hustle, and I am personally concerned that we don't have people out there who have

the training right now, who have the skills right now, to get them started and hustling in those areas.

MR. TAYLOR: Nor do we have the companies, the domestic companies who are prepared to hustle, companies that are going out of business and don't even know it, because of what is happening around the world.

PROFESSOR BEAMISH: One of the things that struck me with my exporting study, was that these firms can do very well, a lot of firms who are not exporting right now, or who were exporting a little bit many years ago, there is a demand for our products, but nobody is out there beating the bushes and I think one of the reasons is we don't have the pool of graduates, who are going into these companies, into their first jobs, saying, "I want to go to the States, I think we have got a great product here, let me go to the States and sell it there, give me an expense account, give me a car and I will be back in three months." I don't see that taking place.

THE CHAIRMAN: Do you see a lack of communication between the business community and the university; is that part of the problem?

PROFESSOR BEAMISH: I think it is a general lack of awareness. I don't want to point the finger and, you know, there is no communication. I think this has been sitting there all along, and if you start talking now about free trade, you are really going to exacerbate a less than ideal situation.

They have recognised this in the States and that's what really concerns me. They have got eighty schools, who demand that their students take international business courses. You don't have a choice.

MR. HAGGERTY: What you are saying then is that as we get into this area of world trade and global partnership, there is going to be many opportunities there for employment because it is a specialized field?

I just want to bring to the attention of the Chairman, during the public hearings that the Select Committee dealing with the Inco layoffs held, we were dealing with international bodies at that particular time, Guatemala and Indonesia, with Inco, discussing it, and we got into it with our staff, we had a solicitor there and an engineer, we got into the question about international law, and we, the committee, was completely lost in this area here and the president of Inco said, "Just a moment. We have an expert in our branch here" and he got through there and he was rambling on about different countries and how laws would affect it, international law, and the president, when he summed it up, he said, "That's why we have got this man here, but he doesn't come cheap," and somebody said at that time, "That's an area that lawyers should be moving into, is international law, because it is going to open up a broad field of employment, in that area, it's quite a specialized area," and I can see the importance of it and I have to commend you for

bringing this to our attention.

PROFESSOR BEAMISH: If I can follow up on your point, what concerns me is that we know if we go towards freer trade, we are going to have more imports.

MR. TAYLOR: We are, anyway.

PROFESSOR BEAMISH: That's right, we are going there anyway, we are getting more imports. We know if we suddenly open the gates, there may be an abrupt change which will force some companies out of business. But the assumption, as I said in the paper, has all along been that suddenly these great Canadian heroes will jump up and say, "Fine, we will fill this gap that now exists," and the evidence I have got said they won't do it yet. They're missing the people.

MR. HAGGERTY: Just take the brokerage firms in Ontario today, if we move into this area, more so perhaps than ever before, in that area alone, that specialized area, brokerage, I'm talking about imports coming in, and the maze of paper they are going to have to go through; and it can work the other way too, that you have to have somebody over in some foreign country and offshore and the job opportunities may well be there, if you have a buyer over there and ship it back, and I feel you have a valid point, as other committee members have indicated, and I think it is worth while bringing it to the attention of the proper authorities, such as the Minister of Universities and Colleges.

THE CHAIRMAN: One of the points you might be

suggesting, maybe inadvertently, is perhaps we should be waiting until we accomplished this? We are not going to be ready to go?

PROFESSOR BEAMISH: No, no.

THE CHAIRMAN: Or is that going to make it worse?

PROFESSOR BEAMISH: The reality is that we are going towards freer trade, as we should go. I'm in favour of freer trade, not just with the United States but with all countries.

THE CHAIRMAN: Even with the present state of affairs?

PROFESSOR BEAMISH: Even with the present state of affairs, but we have got to be doing a number of things concurrently, a number of things simultaneously, and I think this is one of them.

I would be delighted if the members of this committee went to the correct people in the government and brought it to their attention, about this situation, because I don't think it would take much of a push from the Minister's level to get universities to rethink their position. I don't think it would be a big problem. Nobody has talked about it yet, is the problem.

MR. TAYLOR: That's interesting. I find that almost incredible, all these business courses I have heard of and you, for example, are Assistant Professor of Business Strategy and International Business at the School of Business and Economics.

We heard this morning from a couple of professorial types, with equally impressive titles, and they are so comprehensive that one would think that courses dealing with international

trade would be just a matter of fact.

PROFESSOR BEAMISH: We have got the courses.  
We offer the courses.

MR. TAYLOR: I mean a four-year course with a degree.

PROFESSOR BEAMISH: I agree.

MR. TAYLOR: You have seminars, you frequently read of seminars, on all different aspects of foreign trade, we have within our own government, a program for new exporters, introducing them into the U.S., they take them across to Buffalo and introduce them to the customs officers and all the different people that might be involved, finance and otherwise, in terms of trade.

I don't understand why universities -- if this is what you are saying -- are not turning out people who are trained in all aspects of international trade? But that is no substitute for real experience.

PROFESSOR BEAMISH: Absolutely. I don't pretend it is. All I'm saying is you have got to prepare the students, so that you add the experience to this training and you have got somebody who can do a legitimate job internationally.

Let me tell you the first thing I do in my first class of international business and this is the second term of fourth year. I walk into the class and I pull out my wallet, I take out a ten dollar bill and I tell them, "What are the ten

largest countries in the world? You take the ten dollars if you can tell me." I have still got that ten dollars and I have been teaching that course for three years now. There isn't a single student who has ever had more than eight. Now, these are Ontario scholars, Laurier has the highest percentage of Ontario scholars in the province, this is a tough course, yet I ask a fundamental question like that and nobody has picked up the money.

MR. TAYLOR: Maybe you are using the wrong criteria?

THE CHAIRMAN: Mr. Ferraro.

MR. FERRARO: The American Association of Colleges and Schools of Business, how important is that accreditation and which two universities have it?

PROFESSOR BEAMISH: The two in Alberta, the University of Alberta and Calgary. It is expensive to get but it tells you, you are doing a real good job in certain areas. It looks good for the university, because certain types of government funding in the U.S., you don't qualify for it unless your university has that type of accreditation.

MR. FERRARO: Why would a Canadian university want that kind of accreditation?

PROFESSOR BEAMISH: Just to show it is in the front ranks. Some other Canadian universities could probably quality.

MR. FERRARO: If they applied for it?

PROFESSOR BEAMISH: If they applied for it, but they would have to make changes.

THE CHAIRMAN: Do you have a question, Mr. Haggerty?

MR. HAGGERTY: No, Mr. Chairman.

THE CHAIRMAN: I think Mr. Mackenzie wants to say something.

MR. MACKENZIE: I just wanted to take a moment also, to congratulate you on what I guess is an auxilliary point to what the committee is actually into, but it certainly ties in, if your information is accurate, and then I think we probably have the ability and the responsibility as a committee to speak to, whether it is Colleges and Universities or whether it is Industry & Tourism, or probably a combination of both, to see that there is some push given to seeing courses of international business training are provided, that is a suggestion that makes sense, and does not need a lot of elaboration.

It also strikes me, as one who recognises fully that we are a trading nation and have to trade, but is more than a little concerned with the leap of faith we are being asked to take in terms of free trade, or whatever it means to various people, and it strikes me this is one of the many tools we need in terms of doing a better job in our trading as it is, around the world. So I think it is an excellent suggestion and it is well within the responsibilities of this committee to make some recommendation that we take a look at what we are doing with international business training.

PROFESSOR BEAMISH: Thank you.

MR. BRANDT: Dr. Beamish, in the courses that you are presently involved in, and the studies that you have taken, obviously you have taken a look at some of the more successful trading nations in the world, I'm making an assumption here, in all probability you have taken a look at some of the success stories?

PROFESSOR BEAMISH: Yes.

MR. BRANDT: I have been advised, through some of the figures that have been made available to me, that Hong Kong, as an example, exports ninety-seven per cent of its output, which is an extremely high figure, quite obviously, and it recognises the fact that that particular jurisdiction has to export to survive.

Ontario is a relatively successful exporter at the moment. Part of it is good luck, in terms of some of the established contacts that are there, with the multi-national corporations and so forth; but it would indicate, it would seem, that only about twenty per cent of Ontario industries are presently in the export business, which I think supports some of what you are talking about. It is eighty per cent potential out there for additional exporting.

PROFESSOR BEAMISH: Yes.

MR. BRANDT: The point I wanted to get at is, if you looked in some detail at the experience of some of the very aggressive trading nations, that are successful -- and interestingly

enough, Australia is one of these, Australia has done an excellent job of exporting, particularly to the emerging Pacific Rim countries -- and I would imagine that yours is one of the components and a missing part of the total package, the additional training, and I have a whole series of questions coming out of that .... but what have you seen as being, other than the training aspect of it, what are these other countries doing, in your opinion?

PROFESSOR BEAMISH: The fundamental thing is an attitude, and that's why this whole thing causes me concern. We are talking about a fundamental change in people's attitudes, that instead of thinking in terms of Ontario or thinking in terms of Canada, they automatically think in terms of (a) North America and (b) the rest of the world.

Now, we don't have that attitude prevalent in Ontario yet, and if you want to go towards freer trade, you are going to have to have it. There is no way around it. So it is a basic attitude.

Now, even if this sort of thing was implemented, it is going to take some time for it to work itself through the system. Our graduates are going to have to get into positions of ultimate responsibility, or major responsibility, before their attitudes then pervade that particular company. Attitude is the big one.

MR. BRANDT: Could you --

PROFESSOR BEAMISH: I'm sorry to interrupt you,

but I do have a second point.

MR. BRANDT: Okay.

PROFESSOR BEAMISH: If attitude is the first one, the second one is we are just plain comfortable here. We do not have the pressure on us to produce, like they have in places like Hong Kong. I have just spent two weeks in Hong Kong and it is altogether different.

In Hong Kong there isn't a social system to fall back on if you don't have a job. If you are not working your tail off, you are hungry, and that does not seem to happen here.

So that has been a major reason, those two factors.

MR. BRANDT: I have a phenomenal statistic relative to Hong Kong, I want to share with you, that is, if I can get the committee's interest .... I think it is an important statistic, over ninety per cent of those Hong Kong companies have under fifty employees. They are not big multi-national exporters. You normally think in terms of the IT&Ts and General Electrics of the world, being very effective in terms of dominating world trade. But in Hong Kong particularly, we are talking about the vast, vast majority of companies, being very successful in the export market and being very small at the same time.

PROFESSOR BEAMISH: Sir, I would like to reinforce that point, because I think what is critically important in Ontario, is that we recognise that most of our present trade is intra-company with the United States, from a subsidiary to a

parent company and with free trade, that level of trade is not going to change. It is going to stay about the same and in some cases it will just disappear. They may decide to put on an extra shift in Akron, Ohio and do away with the plant here.

So, if anybody is going to have to take up the slack, it is going to have to be the smaller firms. As I said before, the fortunate thing, from my exporting survey, is that we do have good quality products that are in demand. But we are just not doing much of a job selling them, so far.

MR. FERRARO: How do we change the attitude that you have talked about?

PROFESSOR BEAMISH: You institutionalize internationalization.

MR. BRANDT: One of the things IT&T was doing or is attempting to do, through some of these trade shows and commissions that go abroad, they encourage companies not presently exporting, to get on one of those missions and test the market in various jurisdictions.

PROFESSOR BEAMISH: Good idea. Yes, absolutely.

MR. BRANDT: I wanted to pursue the question, the sort of package of needs necessary to be a successful exporter.

You indicated you have just been in Hong Kong for two weeks and I would imagine you came in contact with the Hong Kong Trade Council?

PROFESSOR BEAMISH: Yes.

MR. BRANDT: I find that to be a tremendously powerful group and you may know more about it than I do; and if you can explain or amplify on some of their activities, that would be of interest, I think, to this committee.

In addition to that, I wonder if you could perhaps draft a quick agenda of the sort of job categories that would be needed to have a comprehensive export program that would reach into these other eighty per cent of companies that are not presently doing business in the export market?

You have already identified the fact that there probably is a need for lawyers, certainly, in international law, probably salesmen, and could you give us some job categories? I think that would help us.

PROFESSOR BEAMISH: Recognise that Business or Commerce is a major degree in Canada. There are more people graduating with that degree than anything else. These people go to work for accounting firms and the banks and lots of little companies.

The problem has been when they have gone to work in those companies, for example, primarily non-exporters, they just are not thinking in terms of exporting; they don't know how to do it themselves. Most likely they have never received any training. There isn't a great pressure to do it and therefore they don't do it.

Now, I think that the type of program I'm talking

about in terms of an agenda, we are really talking about something more fundamental. There is no single thing that is going to solve the problem.

I really think we have to change the thinking, the approach of the business graduates that we turn out. We have just got them thinking too much in domestic terms.

It has to be knee-jerk. When they think about doing business and think about what products they are going to sell and the markets they are going to sell them in, in that list of markets, they don't think of markets as the province of Ontario or the province of Quebec, they think of the provinces, the States and other countries.

Now back to your point regarding Hong Kong. They have a phenomenal system, comparable to our BOSS, the Business Opportunities Sourcing System. If you have a request in Hong Kong to do business, if you want to find somebody, they will give you six answers in about an hour, of companies who can meet your needs.

Now, there is no excuse in Canada, for us not having the top system in the world. Canada's range of skills is bi-modal in some respects. We have a resource sector that is very strong, and we have a highly educated workforce.

In terms of management-information systems, we should be a world leader.

Why is Hong Kong a world leader in management-

information systems? I can't answer that question, other than the fact that they deem it important, and up to this point, perhaps we haven't put enough emphasis on it.

MR. BRANDT: To put it more precisely, if you have a product you want to import into Ontario, and decide, as an example, let's use a company give-away promotion item like a pen or pencil or whatever, if you were to phone the Hong Kong Trade Council and if you indicated that you wanted a million of these pens, imprinted, in a particular price range and so forth, what you are effectively saying is that they can give you all the companies in Hong Kong that do business in manufacturing pens, virtually instantaneously?

PROFESSOR BEAMISH: That's correct.

MR. BRANDT: I knew that was the case but I wanted to extend it so that the committee would understand what they do.

Could you also perhaps indicate what the Council does on the other end, in terms of export promotion? Because my understanding is -- if you have knowledge of what they do in this respect to -- that they have something like fourteen hundred operatives around the world, who are constantly out there trying to find new products to sell and they are constantly feeding back into the Trade Council, which in turn is trying to meet the needs of whatever the marketplace demands are, of the various marketplaces of the world.

Now, we do it to a certain extent, but we are not

doing it nearly as much as they are, and they are using the system both ways, both people coming to them and also salesmen out there, coming back to them for the same kind of information.

PROFESSOR BEAMISH: Yes. Now, I'm not sure, to be honest, that we would necessarily solve anything by creating two hundred positions and suddenly having two hundred roving salesmen as part of the Ontario government, to do this, because I think the problem goes deeper.

I think the problem is with our businessmen, it starts there, and the universities have to take some blame. I don't think we are turning out people with the proper attitude and I don't want to sound like a broken record, but that's the reality and that's my concern.

I know what our graduates are like. Wilfrid Laurier has got very good graduates and we can stack them up against anybody in Ontario but they are just not trained enough to do the jobs that we are talking about here.

So I'm not sure, sir, that those types of positions are appropriate at this stage. I think we have to start with internationalizing the curriculum and once we have got some people there and the demand develops, then a program such as you are implicitly suggesting, might be appropriate, an expansion in that area.

Certain things like the NEBs program are a great idea, and the marketing internship program, which pays half your

salary for up to two years, for a business graduate, up to \$30,000, it's a great idea, it has been very effective, I think. These are all good ideas, but it cannot be the government driving it. You have got to get back into the businesses, back into the students, back into the students working and graduating into those businesses.

MR. MACKENZIE: Some of those incentives might get us into trouble.

PROFESSOR BEAMISH: I'm sorry?

MR. MACKENZIE: Some of those incentives might get us into trouble, if we got into free trade.

MR. TAYLOR: He is being facetious.

MR. MACKENZIE: Subsidies ....

Can I ask a question which is in response to your \$10 trick with your students, what do you use as the criteria, and you said the ten biggest countries --?

PROFESSOR BEAMISH: The ten largest in population.

MR. MACKENZIE: Oh, I see.

PROFESSOR BEAMISH: Then I turn the question around. Who are the ten largest traders with Canada, and nobody gets that one either. The \$10 stays on the table and nobody has ever taken it off.

THE CHAIRMAN: The ten largest companies?

PROFESSOR BEAMISH: No, no, the ten largest

countries.

THE CHAIRMAN: Mr. Treleaven.

MR. TRELEAVEN: Two things. You mentioned about having salesmen out in the international field. Are you familiar with the Ontario International Corporation? Slightly?

PROFESSOR BEAMISH: Slightly, yes.

MR. TRELEAVEN: It is an Ontario Crown corporation and basically it has a couple of salesmen out, who tie together packages in the international field, they are a broker or go-between, whatever, and feed back to Ontario corporations. Is that kind of thing desirable, if instead of two salesmen and office staff, if that were moved up ten times and spread throughout the world, is that an advantage?

PROFESSOR BEAMISH: I don't know enough about the program, sir, to answer that; I would have to seemore about it.

MR. TRELEAVEN: Okay, and the other thing is recently, within the last week and a half, I understand Japan has made a suggestion to our Minister of Industry and Trade about certain young people from Ontario going over for a one-year program, to work in industry in Japan, learning jobs, and so on?

PROFESSOR BEAMISH: One of my students went over on his own. It is a very difficult thing to arrange, but it is a great idea. I mean, if we can get some people from Ontario,

speaking Japanese and willing to live there for five years, we can do wonders, we can really start making major inroads into those type of markets.

MR. TRELEAVEN: This is a one-year program, I understand, and I understand the Ministry has not yet taken a position as to whether they want to encourage it or not. But you are in favour of that kind of thing?

PROFESSOR BEAMISH: I'm in favour of anything that will internationalize our thinking and that of our graduates, because if they are going to invest a year learning the language, chances are they are going to return there and they are going to have a skill that a lot of companies, who want to do business or are doing business in Japan, will hire them for.

MR. TRELEAVEN: Thank you.

THE CHAIRMAN: Attitude is a very difficult thing to comprehend. You are suggesting, I suppose, because it is difficult to start anywhere else, it has got to start with the government encouraging colleges and encouraging changes in thinking, I suppose, amongst the people? I'm not criticising, but where do we start?

PROFESSOR BEAMISH: I think it is a shame it hasn't happened internally, that the universities haven't simply decided this is the way to go. But the reality is that a boost is often all that is necessary.

THE CHAIRMAN: It isn't just the universities.

There hasn't been any incentive inside businesses either, I mean the businesses themselves?

PROFESSOR BEAMISH: A lot of them are just too comfortable; a lot of them right now are just too comfortable.

THE CHAIRMAN: Mr. Taylor says a lot of them are dying and don't even know it.

PROFESSOR BEAMISH: If you go to free trade quickly, a lot of them will die and they won't know what hit them.

MR. TAYLOR: They are becoming obsolete, some of them, because they are not keeping up with the new technology, because they don't know what's going on around the world, the new development in technology and with respect, I think that you might consider educating or informing the general public first, because I don't think that the general public --

PROFESSOR BEAMISH: I'm sending this to Policy Options.

MR. TAYLOR: I really don't think the general public, the ordinary man on the street, our ordinary citizen and worker, appreciate the importance of trade, of what he is making and what happens to it, after it gets out of the shop, and what happens if we didn't trade and if a third of our GNP depended on trade, what would happen if you didn't sell those goods, and where do you sell them? To me that is a public educational issue.

PROFESSOR BEAMISH: Yes, yes.

MR. TAYLOR: So maybe TV Ontario should get

involved in this thing?

PROFESSOR BEAMISH: I have done my best, since I have jumped on this one, and it is an area that concerns me.

In the last issue of the Business Quarterly, there was a letter I wrote on this subject, in there, responding to somebody else's article, that we should be emphasizing markets more than products; instead of product proliferation, let's focus on markets and what it takes to do well there.

You know, the gentleman the second from the right there ....

THE CHAIRMAN: Mr. Mackenzie?

PROFESSOR BEAMISH: Mr. Mackenzie made the point that my presentation is an auxilliary point. It may be auxilliary to what you came here expecting to hear, but I really feel it is fundamental to the whole discussion. If we want to implement --

MR. MACKENZIE: I don't really disagree with you. It wasn't on whether or not it is a good idea.

PROFESSOR BEAMISH: Freer trade is a good idea, but we have to be doing a few other things, and that's what I wanted to talk about. I assumed, my assumption, that you probably hadn't heard this sort of material before, and I didn't think you wanted to hear another yeh or nay on the whole discussion of free trade? You have probably had several dozen of those.

MR. BRANDT: You said freer trade as opposed to

free trade?

PROFESSOR BEAMISH: I don't care which label you use; I'm not caught up in that. Okay?

MR. BRANDT: Many are caught up in that.

PROFESSOR BEAMISH: Canada is going towards more trade, increased trade, and I think we should be doing it with all countries, not just the United States. The benefit of the type of training I'm talking about is that it positions us to do more trade with everybody. I'm not talking about courses in doing business in the U.S.

MR. HAGGERTY: You're not talking about fair trade?

THE CHAIRMAN: And enhancement?

MR. HAGGERTY: You covered everything but fair trade?

PROFESSOR BEAMISH: My secretary -- I actually had fair trade written in there, but when I got this back from the secretary ....

MR. MACKENZIE: That's a play on words. I agree with you, fair trade.

PROFESSOR BEAMISH: Okay.

MR. HAGGERTY: No, when I go back, I think you did, I believe you did say fair trade.

PROFESSOR BEAMISH: Yes, I said fair trade, but it wasn't typed in.

THE CHAIRMAN: I wonder if I could move to another

area and your knowledge of it, if we may.

One area that we are supposed to be looking towards in the future, a couple of areas we are supposedly looking at and should be concentrating on, one is the service industries and you have enlightened us on several aspects of that; and another is high tech industries and that is, I suppose, industries that have a large proportion of their activity going towards research and development? Canada runs dead last among the top seven industrial nations in high tech, and we are particularly bad in some areas there. I imagine Ontario is a little bit of a leader there, but we are still not doing very well. We are told that we can benefit by having freer trade with the United States in that area. I'm trying to grasp in what ways.

We had one presentation to us that indicated that there aren't the considerations you have in the manufacturing industry, you don't have to worry about raw materials and closeness of markets and so on, and some of the considerations are very nebulous, where maybe the president wants to live and things of that nature.

Does that tie in at all with the lack of salesmanship that you are talking about, the lack of ability to deal with other markets? If we don't get involved in this, are we going to lose out, in that area, particularly?

PROFESSOR BEAMISH: One of the questions in my export survey was to examine the level of technology involved.

What I discovered was that the higher the technology involved, the greater the export performance. When Ontario-based companies have put their mind towards producing higher technology products, they have been able to sell them very well in export markets.

So the question is not can we do it. We can do it. Are we doing enough of it? Likely not.

THE CHAIRMAN: Well, would we be able to sell high tech industries in Ontario? What should we be doing in this area? For instance, this region should be the high tech region and the percentage of the workforce in high tech is much less than in Ottawa. Is there more salesmanship in Ottawa?

PROFESSOR BEAMISH: No, there is more government money. The federal government got half these companies started.

THE CHAIRMAN: What are we going to do, when we suddenly open the doors? They are not going to flock here, I take it?

PROFESSOR BEAMISH: Instead of expecting a flock to come in, we have to help our existing companies to fly out. We have lots of examples of successful small high tech firms selling outside Canada.

The problem has been these companies do not have very many salesmen. I can come back to the same point I'm making, they don't have enough people beating the bushes.

MR. TAYLOR: It is expensive.

PROFESSOR BEAMISH: I'm sorry?

MR. TAYLOR: It's expensive?

PROFESSOR BEAMISH: It is expensive but the government's program, the one we were talking about, it is a great program. It will pay half the salary for export marketing up to \$30,000 a year.

MR. TAYLOR: When you talk about penetrating foreign markets and establishing a presence --?

PROFESSOR BEAMISH: -- depends on the foreign market, I mean if you want to establish --

MR. TAYLOR: The U.S. is easy.

PROFESSOR BEAMISH: But most of them haven't done that in a complete rigorous fashion yet.

MR. TAYLOR: I'm not quarrelling with you.

PROFESSOR BEAMISH: I realize that. The cost of setting up an office in China is \$250,000.

MR. TAYLOR: I have made the point you are making many times in the past, and I fault to a great degree many of our industries, that are pretty naive and have never made the effort, because they have never had to make the effort.

PROFESSOR BEAMISH: That's right.

MR. TAYLOR: The day is coming now when, with a single global marketplace, everybody has to hustle internationally and if they are going to survive, they have to understand the marketplace.

PROFESSOR BEAMISH: If we look at the example of

Sweden, a country with eight million people, the same sort of standard of living as Canada and yet they have relative to Canada a disproportionate number of multi-nationals. They are doing a good job selling their products outside their own country. Because the attitude that is implanted in them is don't think in terms of the Swedish market, that's too narrow. And that has been the problem in Canada.

MR. MACKENZIE: On the other hand, they have also protected, to a large extent, things like cars, by developing their own domestic cars, and their own aircraft, and so on, and they have a form of content legislation that has protected many of their industries.

PROFESSOR BEAMISH: Yes. Well ....

MR. TAYLOR: You just enjoy it. I'm sorry to jump in with an aside -- and I'm talking to the reporter now --

MR. MACKENZIE: It happens all the time ....

MR. TAYLOR: -- you just have to sit back and enjoy all the benefits.

MR. MACKENZIE: He is just so far left, you see, and we have difficulties with him on this committee ....

MR. TAYLOR: You just relax in that social safety net. They make it a hammock.

MR. MACKENZIE: Before you leave, Professor, can I have your list of the ten countries?

MR. TAYLOR: He wants the ten bucks ....

MR. HAGGERTY: I'll give it to him ....

PROFESSOR BEAMISH: The one they always miss is  
Indonesia.

MR. MACKENZIE: I would like to know if I'm right.

PROFESSOR BEAMISH: Go ahead.

MR. MACKENZIE: China, India, the U.S.S.R., the  
U.S.A., Japan, Indonesia, Brazil, Germany, Pakistan and Mexico?

PROFESSOR BEAMISH: No. Germany is off and  
put Bangladesh in.

MR. MACKENZIE: Doesn't Pakistan --?

PROFESSOR BEAMISH: They are separate countries.

MR. BRANDT: You owe him ten bucks, Bob.

THE CHAIRMAN: Indonesia is in the top five, isn't  
it?

PROFESSOR BEAMISH: Yes.

MR. TAYLOR: Were you an Ontario scholar, Bob?

MR. MACKENZIE: No, I just have an interest in  
things like that.

THE CHAIRMAN: Bangladesh is what, about eighty  
million?

PROFESSOR BEAMISH: No, I think it is over a  
hundred million now.

THE CHAIRMAN: So, that's the sort of market we  
should be looking for?

PROFESSOR BEAMISH: It's a silly little game, but

it proves a point, that our educated graduates don't have the sense of a place like Indonesia, which is a hundred and forty million people, with a rapidly growing market.

MR. MACKENZIE: And Mexico?

PROFESSOR BEAMISH: One hundred million. I mean, it's a silly game, but ....

MR. FERRARO: The President of the United States doesn't know who his largest trading partner is.

PROFESSOR BEAMISH: Oh, well, let's not talk about that ....

THE CHAIRMAN: We appreciate very much your presentation and I think there is no doubt, it is something we have not really focused on. We should be considering it and there is no doubt in my mind that it is something that can be considered in our report, most definitely.

PROFESSOR BEAMISH: Okay. Thank you very much.

THE CHAIRMAN: Thank you.

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LEGISLATIVE ASSEMBLY

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Transcript of proceedings taken in  
Sault Ste. Marie, Ontario,  
September 26th, 1985.

THURSDAY, SEPTEMBER 26TH, 1985.

Sault Ste. Marie, Ontario.

--- Upon commencing at 10:00 a.m.

THE CHAIRMAN: We are ready to start and I will say on the record that the committee is extremely happy to have a chance to be here in Sault Ste. Marie and listen to the submissions that are lined up for today and it looks like we have a very busy day today. I only wish we had more time to listen to submissions here in Northern Ontario; at least before our interim report, which is due in a couple of weeks, this will be our only visit to the north. I hope we get back prior to our final report.

The first submission we have this morning is from the Algoma Steel Corporation, Mr. Melville, the secretary of the Algoma Steel Corporation is going to deliver this submission and I think everyone has a copy of it.

Our procedure is usually to listen to your opening submission with a minimum of interruptions and then if you don't mind, we will put you on the firing line with some questions.

MR. MELVILLE: Certainly.

Mr. Chairman and members of the committee, I would like to welcome you to Sault Ste. Marie. I apologise for the weather, but I can attest and as I am sure Karl can too, it didn't really matter which day you picked, we weren't going to do much better than this ....

I appreciate also the opportunity to convey our views on this trade issue. We think it is of significance to this province and to the country at large, and the long term implications that are involved.

As most of you may be aware, the steel industry in Canada has been involved in trade issues, it has been a highlight, and I think it has been characterised the last two years, from Algoma Steel's perspective, as well as other companies, in terms of being the issue of the decade.

Algoma is directly concerned. We are the largest exporter of steel products from Canada to the United States and the United States also represents a major source of our raw materials. We have more than a casual interest in the outcome of the deliberations of this committee.

By way of background, we are the third largest steel producers in Canada. We are operating at approximately three million tons of raw steel today with nine thousand employees in Canada.

Our exports, virtually all of which are directed at the United States, account for about twenty-five per cent of our annual sales or \$300 million.

Our purchases are at least as great; in other words, our U.S. purchases at least equal and often exceed our total U.S. export generated revenue.

The duty into the United States on Canadian steel

products that we produce, ranges from five to six per cent on average. From the U.S. into Canada, the U.S. exports of steel products which compete with Algoma Steel, ranges from seven per cent. We have a modest advantage on duties.

Coal and iron ore, which we purchase in the United States, enters Canada duty free.

Our position has been an endorsement of the bilateral trade option, and I believe Algoma's position is consistent with most, if not all, steel companies in Canada. Of which, by the way, there are more than four hundred Canadian companies which do export steel to the United States and, as I say, I think there is a consensus of view that we encourage and endorse negotiations of a bilateral trade arrangement with the United States.

The principal reason for our position is an avoidance of protectionism. We were caught on the first protectionism wave back in late 1983, we were confronted with a steel quota bill, as well as a Section 201 petition, which is a safeguard measure which was initiated in the United States against all steel imports.

It was only through an enormous lobby, an unprecedented lobby by the steel industry, in combination with both the provincial government and the federal government, that we were able to escape this trade barrier, which has since been constructed against most steel imports in the United States.

The reason why we were excluded was our argument that we had a tradition of fair trade with the United States and all the evidence was certainly consistent with that position, that we are fair traders.

We also demonstrated to the United States officials that there is a mutually beneficial two-way trade with the United States in steel. They are still surprised to learn that Canadian steel companies buy more materials in the United States than they export, of finished products, to the United States.

At present, as I mentioned, there are a number of countries which are restricted in their ability to sell steel to the United States. We are as of this date unrestricted.

However, our position is far from secure. There is considerable pressure being built in the United States to force Canada into what they refer to as a voluntary restraint agreement on steel. I can assure you those agreements are far from voluntary.

Protectionism or protectionist sentiment generally in the United States we believe is uncontrollable. There are nearly four hundred Bills now in Congress, all of which contain some form of trade barriers.

In fact, even the ardent free traders in the United States, including the Congressmen, acknowledge that many of those Bills will pass. Actually, a number of those Bills

have rallied enough support for them that they will not only pass but be capable of overriding the Presidential veto.

From our perspective, trade has certainly supplanted tax reform as the number one issue in Washington. It has also been our experience in Washington in the course of our lobby, that we cannot rely on a perceived special relationship with the United States. We believed when this issue first arose, we had a number of natural allies. The American Iron and Steel Institute is a very powerful organization of steel companies, of which seven Canadian steel companies are also members. As well, the United Steel Workers of America represents Canadian steel employees as well as U.S. employees.

Perhaps naively, we believed that both those organizations would come to our assistance. That did not occur. In fact, the ISI and the steelworkers Union were driving forces behind restrictions, including restrictions on Canada.

So I do not think that we should act under the believe that the United States in constructing its trade barriers will permit Canada to escape in very many circumstances. Steel is one. We have escaped to date, but I don't think that is going to be a precedent for the future.

The consequences of restrictions on Canadian steel exports to the United States would be devastating to the industry generally but to Algoma in particular. The advocates of

restrictions have suggested that we have an enforced market share of 2.5 per cent. We presently have a market share of slightly over three per cent. This would equal a twenty-five per cent decline in steel exports to the United States.

To give you some idea of how serious this threat is, I'm going to quote from the American Metal Market Bulletin, which is the leading steel trade journal in North America. This article is dated September 20th, 1985, it's quite lengthy, but the first paragraph reads:

"The Reagan Administration appears closer than ever to asking Canada to enter into a formal agreement to limit its steel shipments to the United States to about 2.5 per cent of the U.S. market ...."

and then the article goes on to quote from Joseph Papovich, who reports directly to Clayton Yeutter, so it is clearly from a source that carries a great deal of authority.

"If we were forced to reduce to a 2.5 per cent market share and making certain assumptions on how that market share would be allocated amongst the four hundred Canadian steel companies that export ...."

and by the way, I should inject at this point, I have no idea how that would be allocated? Administratively it would be virtually impossible to allocate that or account for steel shipments as they cross the border. There is in excess of one hundred thousand steel entries into the United States a year.

It would take a massive computer to track that.

Right now we have a stainless steel quota with the United States, there are two companies that produce two products and they will acknowledge that their truck shipments are tied up at the border because the computer cannot even handle two companies and two products.

If you extrapolate that into more than four hundred companies and perhaps one hundred and fifty to two hundred and fifty products, I think you see the administrative nightmare that would result.

In any event, if we were asked to decline to 2.5 per cent, making a simple allocation, Algoma Steel would lose approximately \$65 million in sales annually, which is equal to one hundred thousand tons.

At a very minimum, we would reduce employment by two hundred and fifty. That is just at Algoma Steel. That does not include the associated jobs in this community and elsewhere relating to transportation, material supply, et cetera.

As you can see then, the restricted access would seriously impact Algoma Steel.

20/mc                      Algoma supports a bilateral trade arrangement. However, it is not based merely on the threat of protection. It has to be and is coupled with our competitive ability with the United States.

Until the advent of these trade issues, we have always viewed, as did the U.S. steel industries, viewed North America as a single steel market. We have common customers, with customer loyalty on both sides of the border. We source our raw materials, and many times in the case of joint ventures with U.S. steel companies, but certainly they are obtained from common sources. Our wages are very similar. We are both characterised by private ownership.

To use Don T-----'s words, which have now become a bit of a cliché, but I think he spoke them first, we play on a level playing field with the United States. By contrast, the offshore producers, Europe, Japan and lesser developed countries, are characterised by low wages, often poverty level wages. Tremendous amounts of government subsidization, and a tremendous and irrepressible need to simply create employment and generate foreign currency. Profits fall very low on their list of priorities.

This leads directly to unfair trading practices and the U.S. and Canadian steel companies have suffered considerably as a result.

So we do not hide behind tariffs with the United States. We appreciate tariff protection from the offshore countries, but from the United States, we believe they are not truly necessary.

A recent comparative study ranked Canadian steel

producers, the big three Canadian steel producers, first, third and fourth of the top eleven North American steel producers, in terms of competitive performance; in other words, we captured three of the top four positions, and the other eight being all U.S. producers.

Now, the currency exchange rate contributed very little to our performance, if anything at all. Bear in mind, as I say, we buy, we spend more U.S. dollars in purchasing our raw materials than we receive from our exports. So the currency exchange rate is relatively neutral; certainly to Algoma, and possibly to the entire Canadian steel industry.

So we have encouraged bilateral trade, because we do not object to having to compete with the United States; in fact we look forward to it. It reflects the reality of the two industries on both sides of the border, playing on that level playing field.

Certainly, a bilateral trading arrangement would not be a factor in our decision to locate investments. Our investments are principally in Canada and will stay principally in Canada, with a bilateral trade arrangement.

But I should point out -- because transfer of investments has been discussed in combination with this issue -- in general there seems to be concern that investments will be transferred out of Canada. Only speaking for Algoma Steel, I can tell you without a bilateral trade arrangement, it is

conceivable that our investments could be moved into the United States, and the reason for that is long term protectionism. And I am not referring to next year or the year after, but perhaps the next decade. If we were continually subjected to protectionism, we would have to review the appropriate location of our production facilities. We may in fact have to produce goods in the United States, to be able to sell them in the United States.

So I suggest that a bilateral trade arrangement would go a long way to allowing us to keep our investments in Canada.

I would also like to comment on the provincial submission to the Premiers Conference of last month, referred to as Canada's Trading Relationship in a Changing World. There are many areas in that document with which we agree, but I think there are some areas with which we do not concur, and it may be useful if I discuss them briefly.

Firstly, there is advocacy of a multi-lateral approach to our trade problems. I think there is a dichotomy that is created in that document. They have advocated a multi-lateral approach to the present trade problems, and then in the next breath they go on to say that we should intensify our lobby for some form of exclusion from these trade barriers.

I say that is a dichotomy because, as I understand it, GATT requires protection only to be used as a safeguard

measure, and we have seen that happen in our Section 201 petitions.

It also requires that safeguard measures be enforced on a global basis and not on a selective basis. So I don't think Canada really would be able lobby for exclusion, as we have fortunately been able to do for steel.

I also suggest that protectionism is transforming into trade barriers at a far greater rate than can be addressed by a multi-lateral approach.

We are in favour of multi-lateral approaches in the long term, but I think we have a problem right now that is just too imminent to be dealt with in that manner.

Ontario has also recommended a thorough analysis of all the implications of free or freer trade, and to me it is semantical .... but they have recommended a thorough analysis of the implications of the trade options and I would agree, if it was a perfect world, but it isn't a perfect world, and in this case the overriding factor is that time is clearly of the essence.

I would suggest that if we delayed negotiations for a year or longer, then we will have clearly lost the opportunity that is available to us today.

I would also suggest that the negotiations with the United States would go a long way to answering many of the questions and resolving many of the concerns that have been raised by the province of Ontario.

It has also been publicly reported that the United States is not receptive to trade negotiations. Our experience is in direct contradiction. President Reagan and Malcolm Baldrige, have both recently reiterated their commitment to pursuing liberalized trade with Canada.

We have had dozens of meeting with Senators, Congressmen and administration officials, and each of them has said to us that it is important for Canada to get on with the pursuit of liberalized trade.

We cannot continue to pursue exclusions on a product-by-product or sector-by-sector basis. Congress does not have the patience and we do not have the resources to deal with trade matters in that manner.

We must carve ourselves completely out of the impending trade war with the United States.

I would also point out the negotiations themselves, whether or not ever consummated, would be almost as useful as the final agreement. Congress would have a very difficult time in imposing trade barriers on Canada, at the same time that we are legitimately pursuing a liberalized trade agreement.

The provincial report also expresses areas of caution; that there will be winners and losers, and that we should look at those losers and analyze those implications initially. Again I agree, but I would also say that that can be done in the course of negotiations.

I refer you to the United States-Israeli trade agreement, which itself identified many vulnerable sectors and adopted an appropriate treatment to deal with those sectors. I assume this approach would be available to Canada?

To conclude, it is our belief that protectionism will not disappear. Steel has been threatened in Canada, as well as a number of other sectors, certainly lumber, fish, and I think that list is going to continue to grow.

We have for two years now, recognised bilateral trade as a solution to this problem. We do not question the magnitude of the decision that has to be made to pursue bilateral trade, but we also contend that the threat to the Canadian economy and to the steel industry in the absence of an arrangement is of far greater magnitude.

We have urged the federal government to pursue the bilateral trade option and we now urge this committee to endorse the reference. Thank you and I welcome any questions.

THE CHAIRMAN: Thank you very much. That was a very clear presentation.

Gentlemen, I remind the committee that because we have a tight schedule today, we have about thirty-eight minutes now to ask questions.

MR. CALLAHAN: I would like to ask what is the make-up of Algoma in terms of Canadian ownership?

MR. MELVILLE: 98.5 per cent, 99 per cent, Canadian

ownership. 61 per cent of that is owned by Canadian Pacific Enterprises, we are a subsidiary.

MR. CALLAHAN: My second question is, in reading through this brief and in considering, what is the attractiveness of Americans buying steel here now?

MR. MELVILLE: Well, this is a view that we have reinvested massive amounts of cash, generation of cash over the years, into steel producing facilities; in fact, I think we have reinvested at a rate 50 per cent greater than the United States. As a result, we have far more efficient facilities and we certainly have far greater slab casting facilities, far greater computer enhancements, we are simply more efficient than the United States. We can compete with them on a quality basis and as well on a price basis.

I would also point out that we are located a lot closer to their markets than many of their steel mills. Hamilton is as close to Detroit as any of the major U.S. mills. We're certainly closer to Michigan and the Mid-West than any U.S. steel producers, so there is also transportation advantages to those sectors that we service or the geographical regions we service.

There are a number of reasons why we are competitive or in fact more efficient than the U.S. steel mills.

MR. CALLAHAN: Having said that, that the only thing that is really making this critical is that the Congress

down there is getting protectionist?

MR.MELVILLE: I would have to say that, to me, is the catalyst for our position. We have faced protectionism head on. We were within inches of having our access to that market restricted, and the level of restriction would have been disastrous.

We have got a \$350 million tube mill in the course of being constructed; in fact it is about three-quarters finished at this point. If you impose quotas on Canada, given that that mill is not even in production, there is likely to be no allocation for the product to come off that mill. That mill was justified on the basis of a forecast that showed a substantial percentage of that product going into the United States.

I hesitate to go back and re-do the justification analysis without access to the United States. I'm afraid of what the result might be.

MR. CALLAHAN: So really, in a nutshell, what it boils down to is because some Congressmen down there are getting political, really, that is what is forcing this issue? It is not a question of competition or a question of modernization or being able to produce the best product, but simply protectionism?

MR. MELVILLE: That's the catalyst. As I say now, free access may in fact generate jobs for Algoma Steet, but I don't think I even need to speculate on that. Rather, without any speculation, I can simply look to protectionism, which is

truly real. I'm fairly convinced that without a bilateral trade option, we will be subject to protection within a year or a year and a half. I merely have to look at that. I guess what I'm saying, I only need one good reason to encourage bilateral trade and I think that is an awfully good reason.

Now, if we were not competitive with the United States, I would have to then weigh those factors, but being we are competitive, that really is the only reason I think we need.

MR. CALLAHAN: Thank you.

THE CHAIRMAN: Mr. Mackenzie.

MR. MACKENZIE: I think you touched on one of the problems we have, and I know your brief is much stronger in terms of what appears to be a positive free trade approach and bilateral talks than the brief from Stelco. Have you any particular reason why you would be taking that stronger position?

MR. MELVILLE: We ship about 25 per cent of our product into the United States. I don't know what their exports are, but I believe they are 10 per cent or less. So we have a far greater reliance on the United States than they would and than any other steel company in Canada has, in fact.

MR. MACKENZIE: Can you give us any idea of what it would mean in terms of additional jobs or would you merely be protecting the status quo, in the event that there was a free border or a free flow in terms of trade?

MR. MELVILLE: As I say, I hesitate to speculate

on job generation. There are so many factors involved. Really, we have focused merely on preserving existing jobs.

But I would have to say that Algoma Steel, if we complete the projects that are presently under review, such as a new caster and ladle metallurgy, all of which improve quality and efficiency. Although somewhat speculative, I would not hesitate to say that with a wide open U.S. market, there is no question we would be in a position to ship more steel into that market and therefore generate some jobs.

MR. MACKENZIE: Can I ask you, what would happen if the dollar gap is not nearly as large as it is, and, too, we were told by the steel industry and the steelworkers' union that we are about three to five years, and closer to three years away from massive upgrading of the large mills in the U.S., plus the specialty mini-mills, which is going to make for a much more competitive situation than there has been up until now; and the proposition was also put to us at that time, that if there is further penetration, given that they will be more efficient very shortly, we were likely to invite even further protectionist sentiment?

MR. MELVILLE: I will address maybe your last point first. I think you made three points.

First of all, the mini-mills are limited in their product range; in fact they probably approach the absolute threshold at which they can produce. So we have shut down our

mills that used to compete with the mini-mills. We recognise their advantages and have shut down those mills.

Secondly, referring to the prospects of U.S. modernization, they will always play catch-up with Canada. We are far enough ahead of them now, we have enough on our books in terms of capital expenditures, they will be playing catch-up with us, and secondly, I really don't believe that they will modernize to the degree they have promised their U.S. government. The reason I say that, all we have seen over the last three years is diversification: U.S. Steel, National, LTV, they are all looking to diversify; in fact, if you want a prediction, U.S. Steel will change its name within two years. It will be U.S. Enterprises.

MR. MACKENZIE: The nature of that, it is something like a leap of faith, we are asked to take it on faith, and I have a little more confidence -- whether I would like to see it or not -- in the U.S. to move in those areas.

MR. MELVILLE: The only way the U.S. will modernize, it will be a twofold process; the first one is under way and that is the rationalization, by the shutting down of old existing mills. They have knocked out about 35 million tons of capacity in the last three or four years. That process will continue, but that removes capacity. Thereby, there will be a market out there that in a good year they cannot totally service.

They will then retrofit some improvements to existing mills. They will be retrofitting things like casters, like ladle metallurgy and things that we are proposing right now to do. They will do some of that. I don't really know how much will be accomplished, but as I mentioned earlier, it is a game of catch-up. In the meantime they will have shut down considerable amounts of capacity.

I guess thirdly, is the currency exchange rate. When the President announced two years ago that they had an agreement wherein the U.S. dollar would weaken relative to other currency, we were quite pleased with the announcement and, as I said, the exchange rate between Canada and the U.S. for the steel industry is somewhat neutral.

Our biggest problem has been we have not had price increases since 1981 and the reason for that is the pressure of offshore imports; and they have had price increase, but those prices increases are all reflected in the currency devaluations in comparison to the Canadian dollar. So by propping up those U.S. currencies -- and that is how we look at those adjustments .... it's not so much the U.S. dollar perhaps coming down as it is those other currencies that will come back up, which will take a good deal of import pressure off North America, and we look forward to that.

MR. MACKENZIE: Finally, one other point, that I think we have touched on.

I'm convinced our real success in holding off the problems which we can foresee, up until now, in that we are buying a dollar and a quarter's worth for every buck we sell to them and the Americans understand that. You indicate that you are in a fairly competitive position. I guess the question I have to ask you is, and the reason I ask you is, can you see any additional jobs coming, because what has been clearly put before this committee is that the job losses in industry after industry after industry, for a variety of reasons, either we are not competitive or too small to compete, and even the proponents of free trade acknowledge that at the moment there is an adjustment period, and I guess just balancing that with what other industries are saying, and those job losses, against whether or not -- my town is equally involved, I'm from Hamilton -- in competition, are we able to survive, and what's going to happen with the winners and losers? You have to look at the winners and losers. We have been showing an awful lot of losers and damn few winners, as yet, and your own statement, the hope that we will get some more jobs, but I think we have had about four companies tell us that they have hopes for employment improvement ....

MR. MELVILLE: I guess there are two adjustment periods, and I don't question the fact that there will be a transition or an adjustment period if there is a bilateral trade agreement.

Hopefully that will -- and again hopefully, and

a word I have used maybe too often, but .... in any event, hopefully that bilateral trade agreement would be phased in to take into account some of the growing pains or the pains associated with that adjustment.

But there is also another adjustment period, and that's where Canada -- and I'm convinced of this -- is subjected to trade barriers imposed by the United States; and if it starts to happen in the Reagan administration -- I don't know what might happen after 1988, and that will also result in an adjustment period, where we can no longer look to the United States to take products off the mills or the other investments, that have been built on the basis of access to the U.S. market. I think that adjustment is at least as serious.

In terms of there being losers, again I qualify my remarks, I can only speak from the steel industry's perspective. I know that there will be industries out there that will have a very difficult time. But I think there are also industries out there today that are having difficult times, and I guess the answer then is do we continue to protect all industries or do we let matters flow as in the free enterprise system, to the areas in which we are most efficient?

MR.MACKENZIE: Do we totally integrate our economy and take a chance with the results, is really a comparison --

MR. MELVILLE: -- that, I think --

MR. MACKENZIE: -- your steel industry, Stelco and Dofasco still would survive. But the problem we have is with

all the branch plants.

There is also a very good argument to make, there's not much rationale for leaving those branch plants in this country. We have been given many examples of excess productivity capacity in head office plants in the U.S. that could easily supply the Canadian market. So what's the rationale for leaving them here?

MR. MELVILLE: We are not in that business and really don't feel terribly qualified to comment. But again, I think those are the issues.

THE CHAIRMAN: Mr. Morin-Strom.

MR. MORIN-STROM: I notice in your presentation you carefully avoided using the words "free trade" or "freer trade" "enhanced trade" or "liberalized trade" and most of those that are opposed to a bilateral trade arrangement are opposed towards freer trade because of what the consequences may mean, in terms of the economy, Canadian national identity and political independence. All those kinds of arguments.

You talk about wanting a bilateral trade arrangement. What to you does a bilateral trade arrangement mean, specifically?

MR. MELVILLE: I suppose, with some caveats, it basically means free trade. I avoided free trade because it tends to be a term that gets criticised. But in my view, that is what it is we are aiming for and we would have to aim for.

We would have to recognise that tariffs would be eliminated, non-tariff barriers and safeguard measures

under GATT would be eliminated, unfair trading practice processes would have to be eliminated, countervailing and dumping. To me I think that is tantamount to free trade.

So, I have avoided the term, but in fact that is what is meant.

MR. MORIN-STROM: Is the most important aspect the tariffs or the elimination of countervailing duty or the procedures in the U.S., the anti-dumping procedures?

MR. MELVILLE: Tariff is a sacrifice. We have a minor advantage in tariffs right now, so minor that we can survive quite nicely without tariffs, generally.

I think it is the non-tariff barriers, the safeguard measures, the procurement policies. You see, we right now are suffering from the combined effects of the Canadian-U.S. procurement policies, the preferences.

Where we gain a small advantage through Canadian and provincial preferences, we lose business opportunity in the United States to a far greater extent by virtue of their preferences and those preferences are accelerating at a rapid rate. The Surface Transportation Act denied us a billion dollars of trade opportunity. I think the steel fabricators in Ontario have estimated something over 50,000 tons was lost by virtue of that one piece of legislation.

I think thirty or so states have government procurement policies. Again, we are at a fairly major and

growing disadvantage on that basis.

So to answer your question, tariffs is a sacrifice and what we gain is through the elimination of the non-tariff barriers.

MR. MORIN-STROM: On the safeguard measures then, on which was most of the attention, through most presentations, complained of countervailing duty provisions, and I don't know if that is a big complaint in the steel industry or not?

MR. MELVILLE: Technically -- and again semantically -- countervailing or dumping really are not safeguard measures, in the sense of GATT-endorsed, like a Section 201 or Section 301, where it is a safeguard from imports generally.

But countervail and dumping, we have recently had a case filed and at least as I know you are aware, Karl, against our oil country tubular, our seamless product goods, on countervail and dumping.

I, without any hesitation, without any doubt in my mind, know we will not be found to be countervailed on those products. We just do not receive government subsidization to the level required to meet their test. So, I don't have a problem.

Now lumber may have a problem. I'm not an expert in lumber. I understand there is a problem there. As far as fish, again I don't know.

The steel industry clearly is not subsidized and is

really not subject to countervail. That case was filed and in fact there is really no specific allegation of countervail at all.

Now dumping is a different matter altogether. Dumping, from our perspective, we have tried very carefully to avoid dumping, but it is a difficult calculation to make.

The problem we have is we have customer loyalties in the United States. We don't want to lose those customers over the short term and find we can't sell to them in the long term. So we have had to provide them with products and on some products prices are in fact lower in the United States than in Canada.

We would be better off in the short term, selling in Canada, no question about it. But we would lose that customer in perpetuity.

So that again, the issue of dumping, given that there are two markets with two different market influences, we would be relieved by the elimination of the dumping process.

MR. MORIN-STROM: If at today's exchange rate you are already on the border of dumping, and being in the position of dumping on some product, doesn't that put you into a more serious position, if the exchange rates become less favourable to Canada?

MR. MELVILLE: No, no. Really, if -- if .... in fact we have been dumping and I'm not certain that we have, we

have to let the tribunals determine that in due course, but if we have been, it really had nothing to do with exchange rates.

I mean, we look at our returns as being in Canadian dollars, we translate everything into Canadian dollars and we are going to get the highest Canadian dollar prices we can obtain, as a rule; and if we have to sell everything in Canada to get that rate of return, we would.

Unfortunately, and as I mentioned earlier, there are certain customer loyalties that we have to supply them in the short term, for long term purposes.

So I would say the exchange rate, no matter which way it moves, is not going to affect, is not going to influence our marketing, in the sense of dumping, one way or the other. I am not sure, in fact, how it could.

MR. MORIN-STROM: Right. If we get a dollar thirty, a dollar thirty-five or whatever, for a dollar of sales in the U.S., presuming the exchange rate changed, you would get a lot less Canadian dollar of sales in the U.S., and I would think most U.S. dollar sales are set on a U.S. dollar basis? So your revenues would definitely go down if the exchange rate changed?

MR. MELVILLE: Sure, the sales dollars would go down but by the same token, our overall efficiency increases, because of our three hundred million dollar a year purchases in the United States, would effectively be that much cheaper. So that is the offset to the declining sales return. The offset is the

reduced cost.

MR. MORIN-STROM: You might have to reduce your Canadian prices and stay out of dumping procedures across the border on all your sales? Anyway, we shouldn't be getting into this particular issue today.

MR. MELVILLE: Right.

MR. MORIN-STROM: One of the things we heard when we were down in the States, very clearly, from everyone we talked to, that they were generally aghast at the suggestion that the countervailing duty procedures, Canada would suggest the removal of countervailing duty anti-dumping procedures, that those protections in their mind are absolutely essential, and they have to have protection from various types of subsidy, which of course are defined in the American mind and not the Canadian mind, as to what subsidies.

Do you have an impression we would be able to work an arrangement that will eliminate our vulnerability to countervail?

MR. MELVILLE: Again, we are neutral on countervail. We are not subsidized, so we do not look at that as a principal concern. Certainly we don't look at it in say the same way the lumber industry would be concerned.

But going back two years ago, we looked at sectoral free trade or a liberalized trade arrangement with the United States on steel. We considered that, this is the Liberal government

in 1983 and 1984, we had proposed this as an option to avoiding this threat of protectionism, and in that trade arrangement, we maintained countervail and dumping laws. We had no difficulty with that.

I think though, our preference would be to have them eliminated. But, if they had to be maintained at the U.S. insistence, I still think the bilateral trade option is a useful option, with or without the countervail dumping laws being maintained.

It is not a major problem at Algoma Steel and I don't think it is across the steel industry generally. As long as you are operating with profit as your bottom line, you should always remain a fair trader.

It is the offshore countries, they are less concerned with profits and more concerned with trade simply creating employment and generating foreign currency. That can lead you down the road of unfair trade.

So I really don't think there is any reason why Canada should not remain a fair trader. As far as subsidization is concerned, again the steel industry is not subsidized and has really a difficult time in addressing the subject.

MR. MORIN-STROM: That contention you make, many of the Americans have said that Canada in fact does subsidize various industries through its tax rules or we have different tax rules and regulations, that can be used as a subsidy program,

and ITCs and vast write-offs on capital machinery ....

MR. MELVILLE: They have had two-year and three-year write-offs and in fact, Karl, a subject I guess we're both close to, the limited partnership that we entered into, which was a way of transferring out CCA and investment tax credits.

I go back to 1981 in the United States, they have the safe harbour provisions in their Economic Recovery Act. That permitted those steel companies, as well as the rest of the economy, to do exactly what we do, only in a very simple way. We had to go through all kinds of hoops and circles to get to where we wanted to, and all they had to do was sign, really, a two-page agreement.

The safe harbour leasing provisions allowed them to flow out their capital cost allowance. So, I'm not a tax expert, but I'm not aware where our tax advantages are significantly greater than theirs? I think that is -- well I guess I'm in disagreement with those that say they are.

Subsidization is a different matter. The DREE grants is a separate matter altogether, and if I was in the United States I would be concerned, because we tend to involve the provincial governments, the federal government, tend to involve themselves a little more directly than clearly they do in the United States. I think that is something we have to address.

But the steel industry really has no comment on

that form of subsidization, because we really don't receive it, to any great extent.

THE CHAIRMAN: Mr. McFadden has a question.

MR. MCFADDEN: Yes, I have some questions.

In relation to this question of winners and losers, I think we spent a lot of time considering who is going to win - and who is going to lose jobs, and so on.

Losers are people who have lost profits, lost jobs, and so on. Winners are defined as people who get increased business and obviously get jobs.

I take it from your brief that you would define a winner or a win in your case as being able to hold what you have now got? You feel you need some form of agreement with the United States, to keep from being a loser; and if you get that, you would consider that the fact you had won, is that correct?

MR. MELVILLE: That is sufficient to win. Whether it goes beyond that and creates additional jobs, as I mentioned, is speculative.

But I don't have to speculate. I can just look at job preservation and say that makes us a winner. The reason is I don't think we can compare the status quo versus a bilateral trade arrangement, because I don't think that status quo is going to last for any length of time.

I think we have to project into the future and not too far into the future, perhaps a year or two, and say what

then is the trade policy going to be between the United States and Canada in the absence of a bilateral trade arrangement? And to me, there is insurmountable trade barriers, will be erected, will be constructed in that time period.

That then is the comparison I'm making, and I'm saying we are a winner because two years down the road, we are better off, with a bilateral trade arrangement than without it. But I do admit that that is based primarily on the preservation of employment as opposed to the creation of employment.

MR. McFADDEN: One of the concerns that has been raised during the course of our hearings -- and I know this is a concern of probably almost every member of this committee -- is the tremendous reliance that Canada, in particular Ontario, has on the American market, for all kinds of goods. About ninety per cent of Ontario's exports now go to the United States, and of course the steel industry and the automotive industry are major contributors to that, and a very considerable part of your sales go to the United States. If that access were limited, do you have any other international markets you could tap into reasonably?

MR. MELVILLE: Well firstly, it is almost impossible to sell into other steel-producing countries. They simply have ways of keeping you out.

We have had to sell into the international market over the last three, three and a half years, and that was merely to get production on the mill. We call those contribution items.

There is absolutely no possibility of selling those products in an international market at a profit. The best you are going to get is a contribution to your fixed costs.

So in the course of a recession, we will take steps and try to locate markets throughout the balance of the world, but our labour rates are about \$21 an hour. Labour rates in places like Korea and some of the other developing countries, are \$2 and \$3 an hour. We just cannot compete profitably and incur the transportation costs' disadvantage. We cannot compete profitably with the rest of the world and we don't look to a day when we ever could, so I would say that we are limited to the North American continent.

MR.McFADDEN: So that the market you could lose in the United States, you couldn't offset in some other part of the world or domestically here in Canada?

MR. MELVILLE: No, absolutely not. We could not replace any tonnage that we lost as a result of protectionism in the United States.

MR. TAYLOR: Ancilliary to that, Mr.Chairman, you have mentioned there isn't really any status quo and the world economy is too dynamic and the changes are too fast, to even suggest a status quo position?

MR. MELVILLE: Yes.

MR. TAYLOR: Assuming that the rest of the industrialized nations are as concerned as Canada is, in terms of

the rising protectionism around the world, do you see an acceleration of a renewal of the GATT process and, if you see that, as a response, in addition of course to the voluntary response we have heard about -- and I don't know how effective that would be, but assuming that .... assuming free trade around the world, in terms of your industry, steel, do you feel that you will be in a position to compete?

MR. MELVILLE: Two answers.

The answer to the last part of your question, assuming free trade around the world, no, we could not compete with anyone else's market but Canada and the United States; in fact we would be at a great disadvantage, even in North America, if we had free trade with all of the rest of the countries around the world, especially if free trade eliminates dumping and the countervail process.

We know lesser developed countries, Europe and even Japan to some extent, is more than willing to dump product into North American to rid themselves of excess capacity at home. So we could never advocate free trade, especially without those safeguards, with the rest of the world; and we cannot compete, we cannot incur the eighty to one hundred and twenty dollar transportation cost between here and Europe or here and Asia, and compete profitably, nor will we ever be able to. But they can come here and compete head on. Koreans can make and ship steel to Canada, Japan can do the same thing, and certainly

South America. Europe can, but they do it at enormous losses, they can ship steel here and do it fairly effectively with Canada, even with that eighty to one hundred and twenty dollar transportation cost disadvantage.

The reason for that is that their governments have built them state-of-the-art mills. We call Korea a developing nation and give them the benefit of the GPT, the preferential tariff. We would gladly exchange our mills for their mills. I mean they are the state-of-the-art.

MR. TAYLOR: I have seen them.

MR. MELVILLE: As well, a dollar to three dollars to four dollars an hour is difficult for any North American industry to compete with. That is poverty level, but that is what they are prepared to work for over there. Clearly we can't, nor do we want to. But we can't compete with them.

MR. TAYLOR: So that for the foreseeable future, your market is the North American market?

MR. MELVILLE: It is now and honestly I believe it always will be.

Now, there will be occasions, we have shipped tubes into India and into Egypt, and occasionally we have a qualitative advantage that they cannot overcome, and that may allow us to ship some products around the world at a profit, but those opportunities are very, very limited and very remote.

MR. McFADDEN: Just one short question.

We have been wrestling with if there are any alternatives to comprehensive discussion, and some people talk about sector-by-sector, and there has been the historical example of Europe, where the cold steel community came together and had an exchange between European countries and basically a free trade arrangement.

Based on your discussions with people in the United States, both in Congress and other people in the steel industry and related fields, if arrangements could not be made of a satisfactory nature for something comprehensive that was felt not to be in the national interest, do you believe that some form of sectoral arrangement or some form of industry arrangement could be made, perhaps along the lines of the Autopact or something of that nature, or do you believe that is not possible in your own environment?

MR.MELVILLE: Well, we have tested the waters on that, back in 1984, and as much as we would encourage a sectoral trade agreement, in the event comprehensive is objectionable by either Canada or the United States. Unfortunately the United States steel industry would not endorse a sectoral agreement on steel; and I think the reason why is they look up north and see very efficient mills and they are justifiably concerned that they would have difficulty competing on a sectoral basis.

But having said that, we would certainly encourage a sectoral arrangement, in the event comprehensive or functional

or the other arrangements being contemplated do not come to fruition.

THE CHAIRMAN: Mr. McFadden.

MR. MCFADDEN: Thank you, Mr. Chairman.

I was very surprised to hear you indicate you feel free trade would probably be an advantage to Algoma Steel, where most of the Canadian manufacturers across the province think we would be losers in a free trade system. But I think you have explained your situation reasonably well.

What is the level of unemployment in Sault Ste. Marie at this point in time, do you know?

MR. MELVILLE: Sault Ste. Marie, we always include Wawa in that. About 8,500, 8,700, in that range.

MR. MCFADDEN: How does that compare with a year ago or two years ago? Are you losing or gaining?

MR. MELVILLE: We have been climbing out of a very deep and dark recession. If we go back to the end of 1981, we had over 12,000 employees in Sault Ste. Marie and the Wawa area. In fact, at one point we had lost more than 4,000 employees. As I say, we have started to creep back up from the high seven thousands into the mid eight thousands. So we have recovered some employment, but we are still not even approaching the level of employment we had in 1981.

With the new mill on stream by the way, the new seamless tube mill onstream, we may be able to add five hundred

to a thousand jobs in addition to the ones we now have.

MR. McFADDEN: If my memory serves me correctly, the recession did not hit Algoma Steel as heavily as the steel industry across the country; is that right?

MR.MELVILLE: It hit the first week of March, 1982, I can literally tell you the day, the phone just stopped ringing -- well, they kept ringing, but instead of asking for steel, they were calling and asking to ship steel back to us they had already bought. It was that sudden.

MR. McFADDEN: You had a reasonably high sales year, what, 1982 or something like that?

MR.MELVILLE: The first quarter of 1982 was a record.

MR.McFADDEN: That's what I'm referring to, probably.

MR.MELVILLE: The first quarter of 1982 was a record and the second quarter of 1982 was the first loss we had ever experienced.

MR. McFADDEN: Was that later than the rest of the industry?

MR.MELVILLE: As I understand it, we had been in a bit of a fantasy world up here. Toronto, the major industrial centres, had experienced a recession for about six to eight months before it really affected us.

Now the reason why is we are basically into the capital goods sector. Consumers are the first to be hit and the

first to recover, and capital goods tends to lag a bit. We sell into the capital sector generally and I think we experienced a lag, a deferred recession as it were, but we were then hit that much harder; and whereas the consumer sector recovered late 1983, we have really yet to experience or participate in the economic recovery.

MR. McFADDEN: So, it was harder to get you back on level ground again?

MR. MELVILLE: That's right.

MR. McFADDEN: Just as a matter of curiosity, are you an American?

MR. MELVILLE: No, I'm not an American, I'm a Canadian.

MR. McFADDEN: Your voice seems to have a bit of a dialect? I was just curious.

MR. MELVILLE: No. A born and bred Canadian.

MR. McFADDEN: Thank you.

THE CHAIRMAN: Just a point of clarification. Those figures you gave were for employment in --?

MR. MELVILLE: In Sault Ste. Marie and Wawa. We have an iron ore mine in Wawa, one hundred and forty miles north of here. So we tend to include both.

THE CHAIRMAN: Thank you very much. I know there are two or three others that wish to ask questions, but I think we are going to have to move along because as I indicated, we

have a fairly tight schedule. But I do want to thank you very much for a very clear presentation and obviously we are going to have to take it into consideration in our report.

MR.MELVILLE: I certainly appreciate the opportunity and I certainly respect the magnitude of the task you have at hand. We just appreciate the opportunity to express our views. Thank you very much.

MR. CALLAHAN: Just one question, I'm sorry, Mr. Chairman. One question if I may.

Certainly with your expertise and in your experience, you must have done a study of our natural resources, with reference to the steel industry, versus the U.S.'s ability and natural resources?

MR.MELVILLE: Yes.

MR. CALLAHAN: Do you find our natural resource base is far greater than that of the U.S., in terms of longevity and being able to create steel?

MR.MELVILLE: I look at two resources, coal and iron -- and iron ore. Canada missed the iron ore, they missed the really good deposits of iron ore by a couple of hundred miles. We are a bit limited in our ability to produce iron ore in this area; whereas one hundred and fifty miles south of here, they have very good quality iron ore.

MR. CALLAHAN: That's the U.S. you are talking about?

MR. MELVILLE: Yes.

MR. CALLAHAN: So the U.S. actually has greater access to raw materials than we do?

MR.MELVILLE: That's right. Their deposits are better than ours.

As far as coal, we have been involved with, I had a captive coal reserve in West Virginia since 1910. Although, we are right now experimenting with western-produced coal and there are certain metallurgical problems that have to be sorted out, and we are looking to see if we can use any of it. The transportation, however, is far more difficult from the west to where we are, as opposed to from the south, which can use barge transportation.

THE CHAIRMAN: Yes, Mr. Taylor.

Mr. Taylor has a question which invites a yes or no answer ....

MR. TAYLOR: Do you favour a bilateral free trade agreement arrangement with the United States as opposed to a multi-lateral agreement along GATT lines?

MR. MELVILLE: Well, Mr. Taylor, first, my legal background objects to having to give a yes or no answer, but nevertheless ....

MR. TAYLOR: The Chairman suggested a yes or no answer.

MR.MELVILLE: Okay. In any event, to tell you the truth, we would favour either, but practically we don't think we can accomplish a multi-lateral approach in the time

constraints that we are being subjected to.

MR.TAYLOR: You see, your response to my supplementary question said that you could not compete on an international basis, so that if you had free trade on a world basis, a multilateral basis, then that would be detrimental to your industry? You would be ahead to compete in the U.S. or Canadian markets?

MR. MELVILLE: But I don't make that comparison. The multilateral approach to me is methods by which we can unanimously agree to avoid protection and not necessarily open up trading doors fully.

The bilateral approach I'm looking at has a free trade arrangement merely because that is another solution to what I believe is the protectionist problem.

The multilateral approach, when I say I would prefer or agree with the multilateral approach, it is provided, it is really on the basis that we would get multilateral negotiations and somehow ensure that trade barriers cannot be built between Canada and the United States. Not necessarily a free trade multilateral approach; with that, I would not agree.

MR. TAYLOR: There are two different animals?

MR. MELVILLE: That's right. It is a bit of apples and oranges.

THE CHAIRMAN: Thank you very much, Mr. Melville.

MR. MELVILLE: Thank you.

THE CHAIRMAN: We will go off Hansard now for one

minute.

--- Short Recess

THE CHAIRMAN: Our next presentation will be from Northern Breweries and Mr. Ross Eaket.

Mr. Eaket, you may be aware that the other breweries in Southern Ontario already gave us a presentation, and if your presentation bears a similar thrust to theirs, the members of the committee are going to feel a little schizophrenic after the last presentation, but your interests of course are quite a bit different ....

MR. TAYLOR: And thank you for the beer that was in our room last night.

THE CHAIRMAN: Oh yes, of course. We appreciate that.

MR. EAKET: You're welcome. We try.

MR. TAYLOR: It was very superior beer ....

THE CHAIRMAN: We have your brief here and perhaps if you care to just take us through it, then we can ask you some questions.

MR. EAKET: Thank you.

Mr. Chairman and members of the committee, it is my pleasure to appear before this committee to provide our perspective on the issue of bilateral free trade as it would specifically affect Northern Breweries Ltd. and Northern Ontario.

You have previously heard from the brewing industry

as to the Canadian position, as well as from the Ontario brewers as to the Ontario position.

I would first like to make a brief outline of our company and its contribution to the Northern Ontario economy.

Northern Breweries Ltd. is an employee owned company operating four brewery plants in Sudbury, Sault Ste. Marie, Timmins and Thunder Bay, Ontario and three soft drink plants in Sault Ste. Marie, Timmins and Thunder Bay.

The company was purchased in 1977 by the employees from Carling O'Keefe Breweries who had bought the company in 1971. It is a successor to operations started in 1876 at Thunder Bay, 1907 at Sudbury, 1911 at Sault Ste. Marie and 1929 at Timmins.

The brewery plants have historically been mainly draught operations. Timmins and Thunder Bay produce draught only while Sudbury and Sault Ste. Marie produce both draught and bottled beer.

Until 1979 all sales were made in Northern Ontario only. Draught sales accounted for 84 per cent of the company's volume in 1971, compared to 46 per cent in 1985, reflecting a major shift in dependence on the bottled beer market.

Northern Breweries Ltd. is an important secondary industry in Northern Ontario, providing increased employment from 160 employees in 1977 to 180 full-time employees in 1985, plus seasonal employment of 55 for a total of 235 employees.

Direct salaries and wages total \$5.2 million

per year.

Capital expenditures to upgrade and expand during the last three years was over \$2.4 million.

Contribution to both governments in the last year was over \$4.4 million.

The impact of free trade on the national brewing industry as paralleled by the Ontario industry is of even more serious concern to Northern Breweries Limited and Northern Ontario.

Briefly, the main concerns are:

1. The ability of the U.S. brewers to sell products in Canada below the direct costs of their Canadian competitors when 'open pricing' is permitted. For example, in B.C. where, despite higher tax and handling costs, they are selling below Canadian prices at a net price to brewers of almost 40 per cent below the net price to Canadian brewers.

Second, the availability of large surplus production capacity of these brewers to be dumped into Ontario. The U.S. industry has surplus capacity of 75 million hectolitres, equivalent to three and a half times the total Canadian market.

Third, major spill over advertising which can be readily exploited.

Fourth, the comparative size of the U.S. brewers and with the certainty of open pricing, the certainty of predatory pricing. In the North American market, Canadian

brewers are dominated by the major U.S. brewers. The largest Canadian brewer has only a 3 per cent share of the North American market. The concentration of market share among the large brewers in the U.S. shows that in 1964, the top six brewers had 43 per cent of the market, while in 1984, the top six had 94 per cent.

For several reasons among which predatory pricing is a major one, the number of brewery plants in the U.S. has reduced from 750 in 1935 to 292 in 1955, to 95 in 1975 and to 84 in 1985.

Fifth, the complaints of the U.S. brewers as to different provincial mark-ups for provincially brewed versus imported beer and the lack of access to the Brewers Warehousing distribution system in Ontario.

The Provincial Liquor Commission must pay the costs of warehousing, distribution and retailing. These costs are paid directly by the provincial brewers.

Brewers Warehousing is a low cost distribution and reatil system, privately owned by the Ontario producing brewers and is not unlike the independent distribution systems in the United States.

We do not have automatic access to the U.S. brewers distribution system. They do have access to the 750 LCBO stores in Ontario and would have access to the Brewers Warehouse distribution system if they invested in Ontario and built a brewery.

Through licencing arrangements, the U.S. brewers have approximately 15 per cent of the Ontario market. Canadian exports to the U.S. in 1984 were approximately 1.2 per cent of that market.

Northern Ontario has a distinct advantage in the present system in that beer is sold throughout Ontario at a common price for metropolitan centres as well as remote areas in Northern Ontario. The advantage is not only to the Northern Ontario consumer but also to the Tourism industry. The long distances and comparatively lower volumes on a user pay system would increase the cost of beer in Northern Ontario substantially.

The prospect of open and free access for the U.S. brewers into Canada and the opportunity for them to compete on a price basis is considered devastating to the major Canadian brewers.

They have indicated that the industry could be competitive if free trade were phased in over a number of years and there was elimination of interprovincial trade barriers. Time would be required to make numerous plant closings and to construct a few large brewery plants. Under free trade there is no assurance that these plants would be built in Ontario or even in Canada. Their option may well be to purchase excess capacities in U.S. plants.

If the prospect is devastating to the major brewers in this country, you can well imagine the concern of small

regional brewers.

In the event of free trade, all four of our brewery operations in Northern Ontario would be closed. In addition, due to overlapping of manpower between our soft drink plants and brewery operations, the soft drink operations would be consolidated into one plant.

The effect of this on Northern Ontario would be the loss of direct salaries and wages of approximately \$4 million. Other lost contributions to the Northern Ontario economy would also be substantial; municipal taxes alone would be \$250,000.

Small businesses are job creative and ours is no exception, having an extremely high labour content. Any expansion of operations quickly relates into additional employment. Large mega breweries, even if located in Canada, being highly mechanized and likely being canning operations, do not provide proportionate jobs.

In the event of free trade, there are a hundred and thirty-six employee shareholders of Northern Breweries Ltd. who would lose a substantial investment for which they used savings, borrowed money and mortgaged their homes in the belief that they were at least partially providing some job security. They certainly did not consider that action by their government would not only cause the loss of their investment but also their jobs. With an older age group, especially in the brewery operations, their prospects of alternate employment are slim.

Attracting or replacing secondary industry in Northern Ontario is very difficult. Provincial and federal grants for job creation have been available at substantial cost per job created. Providing substantial sums of government funds for job training without a concentrated effort in job creation does little more than provide higher educated and higher skilled unemployed workers.

It seems ridiculous to eliminate approximately two hundred jobs especially in hard-pressed areas such as Northern Ontario in a dubious leap of faith into free trade.

I would be prepared to respond to any questions from members of the committee.

THE CHAIRMAN: Thank you very much. Mr. Taylor.

MR. TAYLOR: Thank you, Mr. Chairman.

I see the nub of your argument on page 5, when you say, "In the event of free trade, all four of our brewery operations in Northern Ontario would be closed." I guess that's the bottom line?

Now, does that assume even the requirement that any foreign brewery actually located in Ontario, produces in Ontario, using the warehousing system and so on?

MR. EAKET: No.

MR. TAYLOR: Is that premised on that or is there another definition of free trade?

MR. EAKET: It is premised on the dumping of beer and availability of low-priced beer being dumped into Ontario.

MR. TAYLOR: So that if there was a requirement, as exists now, that in order to sell through the warehousing system in Ontario, you have to produce in Ontario, then the situation might be different?

MR. EAKET: Quite different. We can survive in a climate of competition. As you know, the industry is dominated now by three major brewers. We can compete. Our margins are not as great as theirs, but we can still compete in the marketplace.

MR. TAYLOR: You see, I would look upon that event as unfair trade if on the one hand the domestic brewers have to comply with our present regime or laws, then you open up the market to a foreign competitor, that had a different set of rules. To me that is unfair trade. I wouldn't countenance that as part of any arrangement. I was just wondering, you know, what that was premised on. So you've told me that. Thank you very much.

THE CHAIRMAN: Mr. Smith.

MR. SMITH: Thank you. Yes. On page 3 of your document here, you have shown where I guess there are 750 breweries in 1935, and goes down to 84 in 1985. I guess I believe, myself, I think this is typical of what is happening.

Can you foresee in the future that if we allow free trade, our standard of living is going to have to drop in this country, in order to be competitive with, I guess, a giant like the U.S., if we have a free border, shall we say? Do you think our standard of living is going to have to drop?

I certainly noticed it in the last speaker, when he said their wages were \$21 an hour and they are working in Korea for \$2 to \$3 an hour. I just wondered if this is what you see happening in the long run?

MR. EAKET: I think the parallel is there. Our wage costs are high, similar to the Canadian brewing industry and so on.

Your large plants, especially in the southern part of the U.S., do have extremely low wages.

MR. SMITH: What difference would that be?

MR. EAKET: Probably in the range of \$7 or \$8 an hour.

MR. SMITH: Difference?

MR. EAKET: Difference, yes.

MR. SMITH: So that is even more than the difference in the exchange?

MR. EAKET: Yes.

MR. SMITH: A lot more?

MR. EAKET: Yes.

MR. SMITH: Thank you, Mr. Chairman.

THE CHAIRMAN: Mr. Hennessy.

MR. HENNESSY: You mentioned different figures. Is everyone that works in the plant, the soft drink plants or the brewery plants, are they partners?

MR. EAKET: They have the opportunity to become shareholders.

MR. HENNESSY: Are they partners?

MR. EAKET: No. We are about -- there is a limitation, two years service.

MR. HENNESSY: I'm aware of that, but how many people have shares in the plant?

MR. EAKET: One hundred and thirty-six.

MR. HENNESSY: How many people's jobs are at stake?

MR. EAKET: A total of about two hundred out of two hundred and thirty-five.

MR. HENNESSY: So thirty-six?

Some have bigger shares and some have smaller shares? It all depends on how much money they want to invest?

MR. EAKET: Correct.

MR. HENNESSY: I imagine the original group which got in the first time, would more or less have bigger shares, when you decided to buy the company, at that time when the employees got together and they invested, and then when there were other areas open, other people came in and took other shares,

is that it?

MR. EAKET: We tried to have an open basis of employees, of two years, that we will allow them to purchase shares from Treasury, and the intent is to have as many employees as possible to be shareholders. The spreading of shares, it is widespread. There is no group that has control.

MR. HENNESSY: But the original six or seven or eight or ten that were there, they own the majority of the company?

MR. EAKET: It wasn't six or eight or ten, it was about a hundred.

MR. HENNESSY: I'm just guessing. Could be twenty as far as I'm concerned. I'm not aware of it.

MR. EAKET: I'm sorry.

MR. HENNESSY: I'm aware of it and I didn't know exactly; I know some people may have bought into the plant in different areas?

MR. EAKET: That's correct.

MR. HENNESSY: One thing, and maybe I'm wrong, maybe you could correct me. On page 4, you say you don't have automatic access to the U.S. brewers distribution system, but they do have access to 750 LCBO stores in Ontario?

MR. EAKET: Yes.

MR. HENNESSY: My recollection of the LCBO stores, except the ones in outlying areas, don't sell beer? The Brewers

Retail sells beer, but the LCBO strictly sells wines and spirits and things of that nature. You seem to say they would have access to LCBO stores here, and they don't sell beer. I would like to ask you for clarification on that.

MR. EAKET: All imported beer and so on, can be sold through the LCBO stores, subject to listings, which you have to have certain listings, and so on.

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MR. HENNESSY: Beer from the United States, Budweiser and stuff like that, is that considered imported beer or domestic beer?

MR. EAKET: If it is brewed in Canada, it is domestic, which is under licence.

MR. HENNESSY: Like Miller and stuff like that, that's sold in the Brewers Retail?

MR. EAKET: That's correct. It is brewed in Ontario.

MR. HENNESSY: If you want to go like Miller, they would more or less have to build a plant and have to become domestic, rather than having it as imported beer?

MR. EAKET: I'm trying to understand your question, sir.

MR. HENNESSY: Because Canadian beer does outsell, except maybe Miller, but in Ontario I don't think anybody is going into the Liquor Control Board to buy a 24-pack of imported beer? The majority of people in Canada like Canadian beer much better than the United States, I guess, on account of the strength of

the product, or the strength of the drinker? I don't know? But I found it a little odd, that 750 LCBO stores were mentioned, and having a little bit of knowledge of that kind of business, how that would affect ....

MR. EAKET: They have the access, imported beers, Heineken, whatever, have access to the LCBO stores.

MR. HENNESSY: Yes. All right. Thank you.

MR. TAYLOR: Subject to listing?

MR. EAKET: Correct.

MR. TAYLOR: It isn't a simple thing.

MR. HENNESSY: It sounds like climbing up a mountain backwards.

THE CHAIRMAN: Mr. Callahan.

MR. CALLAHAN: Just a couple of questions along the line of the ones that have been put. Do you find that as a result of 136 employees being shareholders, since I presume you sell your beer at the same prices as the other brewers, do you find that enhances your profit, because you have got entrepreneurs as opposed to employees, seeking higher wages? I gather that the 136 people work in the brewery operation?

MR. EAKET: The brewery operation or the soft drink operation.

MR. CALLAHAN: They are true employees?

MR. EAKET: Right.

MR. CALLAHAN: They are not just investors?

MR. EAKET: No. That is one of the restrictions of share ownership of our company, you must be an active employee and there are no outsiders.

MR. CALLAHAN: So it is something along the lines of People's Express, where they are able to buy shares?

MR. EAKET: Yes.

MR. CALLAHAN: Does that enhance your profitability, because you are not subject to the annual or bi-annual situations of wages being requested to be increased?

MR. EAKET: No. We are also unionized plants, we do go through union negotiations. But it does have a tendency to soften, shall we say, the outrageous demands and that type of thing, but they still look for increases in wages.

MR. CALLAHAN: Even though they are entrepreneurs?

MR. EAKET: Well, there are different varieties of shares and not all employees are shareholders. About 86 per cent are eligible employees.

MR. CALLAHAN: I suppose the direction you are moving in is total shareholder ownership by all of the employees?

MR. EAKET: We would like it to be that way, yes.

MR. CALLAHAN: If that happens and this may be speculative, but if that happens, surely your profitability and your competitiveness would be greater than any of the existing breweries?

MR. EAKET: We have found it has helped considerably.

Attitudes change and the amount of output per day and this sort of thing, is certainly improved considerably.

MR. CALLAHAN: Are you aware of any breweries in the United States -- I am just trying to think of the word you call your operation -- this profit-sharing arrangement, are you aware of any breweries in the United States that have that type of procedure?

MR. EAKET: No, I'm not.

MR. CALLAHAN: Would you agree that gives a competitive edge to your brewery, quite apart from the quality of the product, in terms of competing from an economic standpoint?

MR. EAKET: I think we do have an advantage, yes.

MR. CALLAHAN: The next thing is, do you see any danger in the recent trend towards licensing things such as Miller, Budweiser, and I am trying to think of some of the others, that major breweries have brought in from the United States .... do you see any danger of that being sort of -- and I hate to sound paranoid, but sounds like a surreptitious attempt by the United States to get into our market now, with a view to what's going to happen in the future? Do you see that as a --?

MR. EAKET: I think again, the brewing industry and especially Ontario, has been very mature, the volumes are not increasing, we are getting a replacement by those brands. I guess the mystique of a new brand to consumers is always there, and again, the overspill of advertising from the U.S., which

attracts people to buy these brands. It may be a way of having complete approval of Canadian public tastes, to these brands?

MR. CALLAHAN: To build a following?

MR. EAKET: Correct.

MR. CALLAHAN: To build a following, on a particular brand and then perhaps coming in and establishing a brewery?

MR. EAKET: Correct.

MR. CALLAHAN: Is there an equal flow backward, through Canadian products arranging licensing agreements in the United States, to enhance our product in their market?

MR. EAKET: I believe one brewery tried that a few years ago and it didn't seem to work too well. I gather there are some arrangements now coming, so that some of the brands may be produced under U.S. licensing systems.

MR. CALLAHAN: Is that because of a marketing problem or because of some type of legislation that the U.S. has in terms of allowing licensing?

MR. EAKET: I would think that would be strictly marketing.

MR. CALLAHAN: When that happens and in those instances where there has been a licensing arrangement with the United States, I gather that the beer is produced on -- and I hate to say this -- watered-down arrangements of U.S. beer as opposed to the body and strength of our beer; in other words, they don't have five per cent alcohol in their beer? They have --

what is it?

MR. EAKET: Four per cent.

The alcoholic contents are relatively close.

It is the density of beer and materials, and so on, the Canadian beers are a little heavier.

THE CHAIRMAN: I recall the presentation of the other breweries, including the breweries that are under licence from Budweiser and Miller, they indicated, I think, they have licences for a specific period of time, and would expect those licences not to be renewed, if there were free trade.

MR. EAKET: For that very reason.

THE CHAIRMAN: And that the parent companies would simply produce their own; they expressed those fears.

MR. CALLAHAN: Just a comment on all of that.

My concern is one of the problems we have here in Canada is that we allow the United States to use these marketing techniques and entrances into our market and, as I said, I think we are asleep at the switch. Instead of doing it in reverse, we produce, I would think, from the comments I have read in recent newspapers and consumer reports, Americans' appreciation of Canadian beer seems to be very positive, and I think we should be penetrating their market to a much larger degree, rather than letting them soft-sell us, bringing Budweiser and Miller in here, and first trying it out in the typical Canadian fashion of five per cent, then sliding in a low cal beer, which has got three

per cent, and you then eventually get Canadians liking the watered-down beer rather than their own product. As I say, maybe that is paranoia, but I see that as a slick marketing technique.

MR. EAKET: I think the --

MR. TAYLOR: That's probably biased. I think that's just incorrect --

MR. LANE: Actually, Mr. Chairman, I think this witness might know, it was the Canadian breweries who went to the United States --

MR. TAYLOR: -- that's correct.

MR. LANE: -- in the case of Budweiser and Miller, and they both got it because the problems that the breweries had at the time, some brands were a bit tired, and I think we were looking for something -- and I think you will agree with me we had rather tired brands for a while .... and they brought in Miller and Budweiser, and Molson brought in Lowenbrau from Europe. instead, and they are apparently negotiating for another one, but the American breweries have not been pushing us. We have been the ones pushing them, for competitive reasons.

But I should say the Canadians, I know one brand we are trying to move down there is Calgary Export, the Miller company is trying to move it down there.

I can sort of laugh at this, because I remember seeing a Buffalo on the label, they promoted it at a couple of campuses in the United States and they took a Buffalo, an actual live

Buffalo as part of the promotion, walked it around the campus. I don't know if it sold much beer, but that was the kind of promotion.

Actually it is quite the reverse policy, is what I'm getting at.

MR. MACKENZIE: Next we'll be doing it with moose and grizzlies.

MR. LANE: Yes, we'll betaking grizzlies down there next and scare the Americans ....

MR. EAKET: Some of the marketing decisions of Canadian brewers may not seem that wise, such as you were mentioning. Sometimes I don't think the intelligence is there. Especially with the episode, for example, of not hitting yourself in the foot, but in the knee, with the bottle issue.

MR. CALLAHAN: Could I have one further question?

THE CHAIRMAN: Yes.

MR. CALLAHAN: This is off the topic, but I would like to ask the question, what is your opinion as a brewer, as to beer at the corner store?

MR. EAKET: I don't think that issue has been given enough attention as to what the practicalities are.

The cost of beer to the consumer at the corner grocery store is going to be considerably higher than the present system, because as we know, you cannot deliver small quantities to stores. These stores also will be into a mark-up situation.

They do not operate on a non-profit basis.

Again, I think any naive feeling that it is going to be restricted to corner grocery stores over a time period is just that, very naive. It will be chain stores in a matter of three or four years.

We are back then into basic soft drink handling practices, only handling beer: loss leaders, with chain stores fighting, direct shipments out of major markets, preferential for certain brands, if the pricing is correct. All of these practices can become -- it is bad enough in the soft drink business and I would hate to see it go into the brewery business.

MR. CALLAHAN: Doesn't that enhance the market? How can we talk about free trade with the United States if we haven't got free trade in Canada?

MR. EAKET: I'm not sure the problem is free trade. I think the problem is accessibility of products.

If the brewers warehouse system is not supplying properly the availability of beer, or the LCBO, agency stores or whatever it might be, I think that area should be looked at. I don't think it should be completely thrown wide open to grocery stores.

MR. TAYLOR: I think your party is going to lay an egg on that problem.

MR. CALLAHAN: No way.

THE CHAIRMAN: Mr. McFadden.

MR. McFADDEN: Getting back to free trade, certainly the other breweries made a very powerful presentation to us, as you did this morning, in terms of the problems of free trade with the United States for our Canadian industry. One of the other issues that they addressed as well, was the whole question of inter-provincial free trade, where we have got boundaries between provinces that are as great, virtually, in terms of access between Canada and the States.

What is your feeling about interprovincial free trade as opposed to free trade with the United States? A number of our witnesses, I should tell you, have raised this, not only in the brewery industry, but in other sectors as well, the fact that there are barriers between provinces. What is your feeling on that in terms of the brewing industry?

MR. EAKET: That does not bother me nearly as much as free trade with the U.S., again because of the available surpluses in the large plants. Leading operations would still have the problem of shipping. Canada is widespread. Even if they made a large plant in Ontario, or whatever, their cost structure, by the time you take shipping and as long as we still have returnable containers and so on, we feel we can still compete. That part does not necessarily bother me.

MR. McFADDEN: With regard to Northern brands and the export possibilities to the United States, and Moosehead, as you well know, probably sells more in the United States than they do in Canada and seems to be very successful, certainly on

the Eastern Seaboard as, I guess you would call it, a boutique kind of beer, quite trendy, and that market seems to be holding.

Are you exporting anything to the United States and do you think you could perhaps develop that market in the same way as Moosehead did out of New Brunswick?

MR. EAKET: We were previously into exporting, a couple of years ago, and ran into small problems with distributors, of course. We are now starting exporting again, on a very limited basis.

The problem becomes, the area of the U.S. market which is premium priced beers, which is a very small part. The cost of setting up our own distribution system would be impossible, at our size. We are negotiating agreements of distribution systems in the U.S. We would hope to be successful in, again, a small amount of beer comparatively, but we are going into it now.

MR. MCFADDEN: One final question. You mentioned you are putting money into upgrading. One of the things that is characteristic of the American beer market is what they are trying to bring in, beer in cans. I know during the recent strike we had loads of cans of American beer -- and I dare say are still kicking around in places. I know you just mentioned your draught and bottled beer; do you have any plans to go into cans or is that not really feasible to your skilled operation?

MR. EAKET: Our canning line should be in operation

by the first week in October. We are going into canning.

The market has changed heavily in Ontario. Where cans were one per cent of the total market type of thing, we were not concerned with cans. This summer it is running at twenty-four per cent, twenty-five per cent, of the Ontario market and we could no longer stay out of it.

So we are now into canning and we have had to upgrade our canning lines and we have just completed that at about a \$300,000 cost.

MR. McFADDEN: Do you think that will help your competitiveness at all?

MR. EAKET: We think it will help. It is a volume of sales we are presently missing completely and we hope to gain some of that market.

MR. McFADDEN: Are you using a steel can or aluminum?

MR. EAKET: Aluminum.

MR. CALLAHAN: Could I have a supplementary on this?

THE CHAIRMAN: Yes.

MR. CALLAHAN: You talked about the difficulties accessing the U.S. market. Is that in any way caused by sort of the fixed price? For instance, you obviously sell your beer at the same price with the major breweries in this province? Maybe it is a rhetorical question? Surely your entry into the U.S. market is caused by that fixed price, which has been set in this province? I mean, if you are going to charge -- I don't know

what the price of beer is here, but if it doesn't compete with the prices in the U.S., there is no way you will ever get access to their market?

MR. EAKET: The fixed pricing system in Ontario, basically, to a brewery such as ours, is excellent. You are again away from open pricing, sale prices, predatory pricing. We can compete on those price levels, because any price increase that comes through is based on cost increases and it has to be approved by the province.

MR. CALLAHAN: But surely that limits your competitiveness in the U.S. and actually creates mega-profits for the larger breweries to the detriment, I would suggest, of the ability to free it up and allow it to be a free market?

MR. EAKET: As far as pricing in the United States, that is open.

MR. CALLAHAN: I know that. That's why I'm saying that this attitude towards a specific price hinders your ability and also, I suggest, the major breweries from competing in the United States?

MR. EAKET: It may, but I think the other possibility, as you have premium prices allowed, at higher prices, in Ontario, and you are going into a different -- there is flexibility, there is price flexibility there.

MR. CALLAHAN: Thank you.

THE CHAIRMAN: Mr. Lane.

MR. LANE: Thank you, Mr. Chairman.

A number of the questions I was interested in have already been answered.

I was very interested in coming at your problems with employees and I guess I was thinking, a bit more of that in Ontario, we would be better off.

I was a little concerned .... at page 5 you are talking about potential investment loss of some of the shareholders, that have used up their savings and in some cases mortgaged their homes to become shareholders, and yet you have a hundred or so employees that are not shareholders. I was wondering how one gets to be so dedicated and yet other people do not become shareholders? Is there any pressures to do it or --?

MR. EAKET: No. It's their option. Where you have problems, of course, is your young employees, especially soft drink operations, who are getting married and building homes and so on: We do make it accessible to them, through a payroll deduction system type of thing, and they must have two years of seniority.

We have had, for example, nineteen employees in the last year that became shareholders. It is their choice. There is no pressure put on them. We don't try to discriminate against the employee-shareholder versus the other shareholder.

MR. LANE: Then do some people get carried away to the point where they borrow money to invest in the company?

MR. EAKET: Oh, yes.

MR. LANE: Through the recession, did you ever have to lay any employees off or were you able to hold your own? I mean, is your product more in demand in recession years than others?

MR. EAKET: We did not have any layoffs and again, an employee-owned company has a tendency of carrying employees a little longer than other companies, although things may be slow. We were basically in a building process, a very small share of market, and we weren't building additional markets, but the attitude of layoff is only if absolutely necessary.

MR. LANE: So actually through the recession years your employment remained constant?

MR. EAKET: Yes.

MR. LANE: So all we need now is no free trade and you are on your way to the races?

MR. EAKET: That's right.

THE CHAIRMAN: Mr. Morin-Strom.

MR. MORIN-STROM: First of all, I think the overall conclusion is put very bluntly here in your statement on page 5. I would like to clarify the whole thing, first of all, with reference to the employee-ownership arrangement that people have brought up here. I think you have 136 shareholders and 225 -- 235 employees. But in fact, in terms of the percentage owned, I think it is 86 per cent?

MR. EAKET: Of the eligible ones.

MR. MORIN-STROM: The eligible ones are those full time employees that have been with the firm at least two years?

MR. EAKET: Correct.

MR. MORIN-STROM: And out of those you have got, what is it, 86 per cent?

MR. EAKET: Right.

MR. MORIN-STROM: Which is a very, very high percentage of the eligible employees are in that shareholder group?

MR. EAKET: Yes.

MR. MORIN-STROM: Now on the point of borrowings, using savings and borrowed money, my understanding is that in many cases, it is a matter of the investment being financed, in some sense, through the company, with the employee putting up their assets as collateral rather than the employee actually -- I don't know -- if you are buying a couple of thousand dollars worth of shares, whatever the amount might be, they don't normally actually put the money directly into the company, do they?

MR. EAKET: It is a combination. Part of it is on common shares, which they must pay for, and then there is also an employee-shareholder note, which we use for financing, on which the company pays interest to the employee and the employee then pays his bank or whatever, but the total thing is under risk of the employee.

MR. MORIN-STROM: So those notes, I guess, is where the employees are very vulnerable? If the plant went under, they would then be the losers on those notes?

MR. EAKET: Correct.

MR. MORIN-STROM: They would have to pay on the notes to the bank?

MR. EAKET: Yes.

MR. MORIN-STROM: So they would lose more than jobs? They end up with a debt to the bank as well?

MR. EAKET: Correct.

MR. MORIN-STROM: So there is a risk for those particular people?

MR. EAKET: Yes, there is.

MR. TAYLOR: Like any small business?

MR. EAKET: Certainly.

MR. MORIN-STROM: On the issue of beer in corner stores, which was one issue, to some extent, with the major breweries, they have made their presentation down in Toronto, Southern Ontario.

MR. CALLAHAN: They don't want it.

MR. TAYLOR: Of course they don't want it.

MR. MORIN-STROM: Would Northern Breweries be able to survive under a system, if beer is sold in grocery stores and we were into open pricing?

MR. EAKET: Open pricing would be difficult.

Beer in grocery stores may make it difficult. I don't know it would be a matter of survival? The problem with it again is the handling of only a few major brands, would be done by the grocery stores.

Shelf space is a major problem with soft drinks, and the cooler space, and they will handle only the fast-moving brands. A small brewer would have difficulty getting his products listed.

MR. MORIN-STROM: So you think it would hurt your operation?

MR. EAKET: It would, certainly.

MR. MORIN-STROM: But you would probably survive that?

MR. EAKET: The system with the Brewers Warehouses, 450 stores, as a shareholder of Brewers Warehouse, we have the right to have all our brands, package sizes, listed in every one of those stores. It is not a matter of whether the other brewers want your products in there or not. We have the right to have our beer there, which we would lose in corner stores. And then it is up to the public, of course, to buy what they want. But in the Brewers Warehouse, we have that privilege of listing our products, which would not happen under a grocery store business.

THE CHAIRMAN: Is that privilege just for Northern stores?

MR. EAKET: No. All Brewers Warehouse stores, even including Mr. Brickman, and so on.

MR. HENNESSY: Just a supplementary on the same question.

THE CHAIRMAN: Yes. Mr. Hennessy.

MR. HENNESSY: I would like to ask how would the corner stores be stocked in regards to brands? The way it goes, the Liquor Control Board is the request or demand, and you couldn't probably get in the corner stores; is that what you are concerned about?

MR. EAKET: That's correct.

MR. HENNESSY: The big names would get first, second and third, and there would only be so many listed for each store, and if the store was small and only X number of brands, maybe three brands, and the top brand, the best seller would get to call in and you wouldn't be, by how much you sell in each store too, or what your volume is at the Liquor Control Board or Brewers Retail, when you get listed with them, eh?

MR. EAKET: The stores would be that way, they would handle, as you say, only fast-moving brands.

MR. HENNESSY: On the other hand, wouldn't the large breweries hire extra salesmen, they hire them back and forth and fire them, and let them go, and they are back, and they would go out and start pushing to get their brands listed?

MR. EAKET: The practices of the brewing industry I would not want to get into, but I'm sure they would have to have a large number of employees on a strict quality control

basis, and a beer is not a limitless age product, it has to be controlled as to time, and this would be expensive.

MR. HENNESSY: But to get listings in the corner stores -- I was into it, so I know what I'm talking about .... that especially the large breweries, they would hire X number of staff, more than they really need, and go out and swamp the corner stores, and say they would leave a case by mistake and the guy would list their product.

THE CHAIRMAN: Is that how it works?

MR. HENNESSY: That's how businesses work.

So I just want to know, is that your concern, that they could outsalesmanship you?

MR. EAKET: Definitely.

MR. CALLAHAN: A supplementary.

THE CHAIRMAN: Yes.

MR. CALLAHAN: I think we are going far afield here, but I want to test the waters while we are here in Northern Ontario ....

Surely that is exactly what every Pepsi-Cola, Coca-Cola people, do, it is called marketing, and if you have a controlled atmosphere, what does that do to the competitor or competitiveness or the ability to try to make a better mousetrap? If you have just got this access and it all goes into the store?

I mean, when I go into a beer store, I don't even know what brand I'm buying. I'm probably influenced by what I

see on the ads on television, that if I drink Molson's Golden, some beautiful girl is going to wind up on my table. I mean, for Heaven's sake, I think that's probably at the very root of some of these discussions on free trade, is the question, that as long as we continue these approaches, we wind up being in a sense, in a very secure, protected situation, and if it ever does become a situation where the U.S. market gets a hold in this country, in terms of beer, you can be damn certain that they will sell it on a marketing principle, and I think it is very dangerous for us to continue to have that very secure big warehouse in terms of that, plus all other industry.

THE CHAIRMAN: I think there is also a presumption in your feeling, that there wouldn't be any more regulations on the corner stores, with regard to what they can stock, with Jello or bread or anything else, and maybe that wouldn't be the case? I don't know.

But to get back to Mr. Morin-Strom, I don't think he has finished asking his questions and you have two minutes and then Mr. Mackenzie has a question.

MR.MORIN-STROM: It is interesting, the mention of Pepsi and Coke. I'm not sure whether there is any Canadian brand of soft drink that --

MR. TAYLOR: Canada Dry.

MR. MORIN-STROM: I don't believe Canada Dry is any longer a Canadian brand.

What about the costs of the distribution system?

As an example, taking your pop operation, if that might be reflective of what you might have to have as a distribution system to supply beer to corner stores, compared to the kind of costs you have under the Brewers Retail arrangement right now? What do you think the difference is likely to be?

MR. EAKET: The costs would be substantially higher on a corner store basis. You must remember we are sharing costs in a Brewers Warehouse system and the same with deliveries.

The corner store, on the soft drink basis, we are probably looking at about a dollar and a half to two dollars a case just for the delivery to that store; and if you have to look at quantities and the time it took a man, the time it takes to put a man out, take a truck, go to the store, make out the order, pick up the empties, at a five-case, ten-case drop, at fifteen or twenty dollars an hour, is a costly venture.

The other point is the mark-up that the store will require. We know even on a sale price, in the soft drink type of thing, you are getting into large mark-ups, even fifteen or twenty per cent mark-ups.

The chain stores, they go for loss leaders, but the small store does not. So you will see a considerably higher pricing of your products, which we are afraid will cause less volumes.

MR. MORIN-STROM: Just for the record then, out of

the number of employees you have, how many are actually in the Sault?

MR. EAKET: About ninety.

THE CHAIRMAN: Mr. Mackenzie has a question.

MR. MACKENZIE: That's the bottom line thing I want to get at as well.

On page 5 of your brief, you say, in the event of free trade, all four of your brewery operations in Northern Ontario would be closed, and earlier you mentioned you have 235 employees. I just wanted to know whether that also included -- 235 -- the soft drink operation?

MR. EAKET: Yes.

MR. MACKENZIE: That's total?

MR. EAKET: Yes.

MR. MACKENZIE: That is the possible total potential of job loss, is 235?

MR. EAKET: No. The -- we think the soft drink operation would survive under a one-plant operation and that's why we're going from 235 down to 200.

MR. HENNESSY: If I may ask, sir, the 235 are from Thunder Bay and Sault Ste. Marie?

MR. MACKENZIE: All four cities?

MR. EAKET: That's correct.

THE CHAIRMAN: Thank you very much. That helps us in considering the brewing industry and I think I indicated

the other breweries from Southern Ontario, were talking to us, that there is -- and no one has corrected me on this, so I will repeat it -- I don't think there is a single member on this committee that is not concerned about the brewing industry and the ramifications that free trade might hold for it. So we certainly will consider your brief very seriously.

Thank you.

MR. EAKET: Thank you very much.

THE CHAIRMAN: We will take now approximately a one-minute break.

--- Short Recess

THE CHAIRMAN: If we can get started again ....

We are very pleased to have with us the representatives of the Sault Ste. Marie Chamber of Commerce. The brief will be presented to us by Mike Peets, who is a member of the Development Committee. He has indicated he is prepared to take us through his brief and to entertain questions. Mr. Peets.

MR. PEETS: Mr. Chairman, we in the Chamber recognise trade is an extremely complex issue. There is little empirical data available. So our perspective is of a general nature.

I'm not an expert -- and I'm not even a very good typist, as my cohorts point out. I didn't even number my pages

here.

Canada's dependence on trade and the protectionist movement in the U.S. necessitate an immediate review of our international trade policies. With nearly 80 per cent of our exports going to the U.S., it makes sense that we focus our attention on the special relationship we have with our largest trading partner, especially considering that partner is becoming increasingly nervous about its trade deficit. That is not to say we should diminish our efforts to seek more equitable arrangements with the rest of the international community; but, it is essential that we give priority to negotiating a mutually beneficial trade pact with the U.S. so that our fragile economy does not suffer the adverse impact of U.S. protectionist legislation.

As a border city we are particularly sensitive to the problems facing Canada and our friends to the south. Cheap labour in Pacific rim and developing countries make it near impossible for North American industries to compete in markets for products with a significant labour component. Foreign governments directly and indirectly subsidize certain of their own industries, permitting foreign producers to undercut our own market pricing mechanisms. Moreover, many of these foreign governments have erected tariff and non-tariff barriers to effectively shut out North American finished goods from their domestic markets. While efforts have been made through the General Agreement on Tariffs and Trade to facilitate international

movement of goods, GATT has not been expeditious or particularly effective in overcoming non-tariff barriers against North American manufactured goods. And, while Canada and the U.S. have together been subjected to unfair trade practices of other nations during periods of deep recession and slow recovery, special interest groups on both sides of the border have naturally jockeyed for position in unstable domestic markets. As a result of an unfair international web of trade barriers, weakened economies, and the relative depreciation of the Canadian dollar, Canadian and American interest groups have mistakenly begun to view each other as a threat to the other's economic well being.

In the past, Canada and the U.S. were able to deal with trade problems on a sector-by-sector basis, such as in the case of the Autopact or as, more recently, in the case of the steel industry. Now, however, this method of working things out with the Americans is no longer satisfactory. As we lobby with the U.S. administration to stamp out one protectionist brush fire, another flares up, and then another, and another. Moreover, dealing with each sector on an event basis gives us little security and necessitates tradeoffs that are less than full measure solutions. As a result, a comprehensive treaty agreement might offer a set of more stable, longer lasting solutions.

Over one thousand bills have been introduced in the U.S. Congress over the past three years, all attempting to protect U.S. industries against imports of logs, steel, sugar, softwood,

fish, copper, cement, mass transit equipment, potatoes, and other commodities. While their valid reasons may be aimed at the Pacific Rim and Europe to a large extent, Canada would certainly get caught in the crossfire unless we negotiate a comprehensive deal with the Americans. Such a special arrangement would give both countries the opportunity to carefully restructure both economies to shake out the inefficiencies, take advantage of what each country does best, and develop new world-competitive industries. Over the next year, the liberal trade administration in the U.S. may have to give in to or may be overruled by the protectionists who see foreign trade practices as unfair; and, with elections coming up in the U.S. next year, we must negotiate now to stop the protectionist movement.

A comprehensive trade agreement with the U.S. does not mean selling out, compromising our sovereignty, or changing our social structure. It simply means removing barriers to trade and defining the rules of the game. It would be a commercial transaction for mutual advantage.

Removing trade barriers would in theory benefit Canada in a number of ways, provided Canada can make the adjustment without interprovincial, inter-regional or inter-industry squabbling. There would be winners and losers in a more open North American market, and the potential losers must put the interests of the country ahead of their own. At the same time, the winners have an obligation to help those whose regions, businesses and jobs will be adversely impacted by the transition to a less

barriered marketplace, making the required resources available to enable them to bring themselves into the winners' circle within a reasonable period of time. Those who would be hurt by the lowering of trade barriers are those whose present economic endeavours are not viable without the current system of subsidization by Canadians through higher prices and taxes. In the end, taking away the protection and subsidization would cause hardship for only those who cannot or will not compete, that is, those who are doomed in the long run under the status quo or any trade option.

A more open trade arrangement with the U.S. obviously would benefit the resource-exporting regions outside the Montreal-Windsor corridor, guaranteeing access to the U.S. markets on which they largely depend. In addition, these same regions would benefit by a 10-20 per cent decrease in consumer goods prices. "Periphery" Canada would buy less from Central Canada, as trade would shift to a more natural and efficient north-south distribution pattern; however, increased economic viability in the periphery assures Canada's sovereignty, relieves Central Canada of the burden of carrying unviable periphery regions and sets the stage for secondary manufacturing development in Western Canada, the Maritimes and Northern Ontario. Granted Southern Ontario and Quebec manufacturing industries risk the most in a truly competitive North American market; but, because all Canada is at risk if we do not restructure toward a state of world-competitiveness, Central Canadian industries must look beyond

their own special interests. They must see that the future lies in the challenges of hassle-free access to the U.S. mega-market, shifting resources to growth products and services, and specializing in what we do best. The future does not lie in propping up industries that can never compete internationally, protecting dead-end, low-paying jobs or preserving distribution systems that discriminate against Canadian consumers. To reap the benefits of reduced trade barriers between Canada and the U.S., we might turn our attention from the negatives to the specific advantages that would accrue to particular sectors/regions and to the mitigation of risks facing these economic groups.

In the Ontario context, Sault Ste. Marie is unique, being remote, being a border city, having a dependency on one industry. We are the gateway to areas of significant natural resource and tourism potential, with good access to all modes of transportation. We pay 15 per cent more for goods, gasoline and durable goods than do consumers in Southern Ontario. Outside of the steel industry, our wages are lower than those in Southern Ontario, especially in jobs occupied by women. Our unemployment rate runs higher than the national average. Our resource industries are highly leveraged, inventory intensive, and U.S. market oriented, making it challenging to obtain bank support to finance growth. Steel, mining, forest products and tourism benefit from the current Canadian/U.S. exchange rate and continued access to the U.S. market. Successful protectionism in the U.S. would severely impact Sault

Ste. Marie, forcing us to become a burden on Southern Ontarians.

More accessible markets for our major employer, Algoma Steel, means less unemployment for Sault Ste. Marie. Algoma Steel has forced itself to become lean, concentrating on profitable produce lines, productivity, and modernization. When modernization is complete, Algoma Steel will be positioned as a world-class, technically-superior, market-driven steel facility, having the ability to withstand cyclical demand fluctuations in a highly competitive steel market. Algoma's products are competitive right now in the U.S. market, without any subsidies we might add; but, their recovery from the recent recession would have been nullified if the millions of man hours spent lobbying the U.S. had not resulted in a stop to the first wave of U.S. protectionism in 1983. If new protectionist pressures in the U.S. succeed, Algoma Steel could be forced to shift investment away from Sault Ste. Marie into the U.S. in order to remain competitive in that market. It is therefore essential that we not only negotiate an end to U.S. protectionist tendencies but also, a deal that insures long-run market access and an atmosphere conducive to continued investment and job creation in Sault Ste. Marie.

A comprehensive agreement with the U.S. would benefit more than just our steel industry. Mining and forest products industries can gain stability from secure markets free from the threat of protectionism. The capital-intensiveness of these industries means that growth sectors within these broadly defined

industries will require new and modern equipment, thus increasing the market potential for competitive capital goods manufacturers in Southern Ontario. Market security for these Northern resource-based industries also means increased investment and efficiency, as well as more permanent job opportunities for our native peoples.

The absence of tariffs and elimination of non-tariff barriers also gives new opportunities to existing Sault Ste. Marie small business. With our well developed infrastructure and transportation facilities being the largest within a radius of three hundred kilometres, the lifting of trade barriers opens up the Northern Michigan market to our developing secondary manufacturing and processing industries, and to our well established service sector. In addition to increasing the market for many of our small businesses, the people in the Michigan Upper Peninsula would benefit from our relative economies of scale as well as our expertise in everything from pizza dough to financial services, from beer to architectural services, from furniture to health services. Increasing our sphere of influence by 25 per cent means more employment opportunities and more profitable and stable small businesses.

We expect a U.S. trade agreement would lift more than obvious trade barriers; it would remove the psychological barrier to new, outside investment in secondary industry in Sault Ste. Marie. While it would be a fantasy to believe we could entice manufacturing firms to move to our area; there is every

reason to believe we could attract our share of investment in new plant by European entrepreneurs seeking access to the U.S. market. Moreover, Sault Ste. Marie could reasonably expect to compete in attracting new auto related parts manufacturing ventures, for example, because the distance from, say, Kitchener to Detroit is not much different than from Sault Ste. Marie to Detroit. At present, potential investors, as well as ourselves, view Sault Ste. Marie as too far away from the market to justify locating a plant; however, with respect to any sort of manufacturing, we have always looked at Southern Ontario as the market. Under a comprehensive trade agreement, we see our market down I-75.

On the supply side, Sault Ste. Marie looks forward to lower consumer prices as a result of comprehensive trade agreement with our U.S. neighbours. The removal of tariffs on goods imported from the U.S. would lower the landed cost of these goods, permitting wholesalers and retailers to pass along the savings to consumers throughout Canada. Sault Ste. Marie would benefit additionally from more efficient distribution chains, bypassing Sudbury and Toronto where appropriate, obtaining our imports directly from the north-south Michigan distribution network that currently stops within sight of downtown Sault Ste. Marie just across the St. Mary's River. The Michigan distribution network would give us an alternative source for all consumer goods, and the resultant competition would bring down high prices currently justified by alleged higher costs of transporting goods to our

region from Southern Ontario. Our transportation experts tell us the cost of moving food, fuel and consumer goods from Toronto to Sault Ste. Marie is currently little different than the cost between Toronto and Windsor or, indeed, Detroit and Sault Ste. Marie; and yet, our prices are higher than in Windsor or Sault Ste. Marie Michigan (currency adjusted). We conclude that with competition in the distribution chains, Sault Ste. Marie would no longer be a captive market for Toronto-based distributors, and fairer consumer prices would result.

While most businesses and consumers in Sault Ste. Marie would benefit from lessening of trade barriers, our brewing industry might not survive without restructuring and a major change in the involvement of, and the impediments placed by government in this saturated Canadian beer market. The efficient super-breweries in the U.S. have excess capacity with the ability to cover the Canadian market ten times over. At the same time, Canadian breweries face three times the tax structure of their U.S. counterparts. Despite having the most efficient beer distribution system in the world, Ontario breweries, their shareholders and employees will be the losers in the comprehensive trade agreement unless this industry is exempted from a free trade environment, or at least given an extended adjustment period with special rules.

The prospect of lower consumer prices, better quality jobs and more entrepreneurial opportunities will undoubtedly bring

business and labour closer together in Sault Ste. Marie. Stability in market access will lessen business risk and enhance the investment atmosphere; growth will mean higher return on investment and a higher wage in a competitive job market. Market security means job security for Sault Ste. Marie, and both are essential ingredients in the challenge to make labour, management and capital more productive in Northern Ontario.

Sault Ste. Marie and the surrounding area would significantly benefit overall from a comprehensive trade agreement with the U.S. Protectionism, however, would seriously hurt our resource-based economy as well as our efforts to diversify into the secondary manufacturing sector. The risk of protectionism winning out in the U.S. is great, but even if protectionism fades in the U.S. for the moment, it can and probably will rise again to trouble us in the future. And, as long as that threat of protectionism is there, the uncertainty will continue to cool the investment climate in Sault Ste. Marie. For that reason, we favour a comprehensive agreement and a movement toward freer trade under all circumstances, recognizing full well that the risks of such an arrangement with the Americans affect Sault Ste. Marie less than Canadians to the south of us.

With a comprehensive agreement, Canada would face several risks and adjustment difficulties:

- Canada would be locked into a contractual arrangement and could see its bargaining power limited in efforts

to amend the agreement.

- Non-tariff barriers can take many subtle forms, making it difficult to supervise and monitor the terms of the agreement.

- Too many exceptions may creep into the agreement to water down the mutual benefits.

- Displaced workers may not have the willingness to retrain or relocate despite the prospects of better security and higher wages.

- Displaced capitalists may not choose to reinvest in growth market industries, preferring just to cash in their chips, in spite of any sort of incentive to reinvest.

- Increased investment may move the Canadian dollar toward the U.S. dollar, reducing demand for Canadian products.

- Weak industries will fold quickly, but it will take a while to organize new-tech businesses and products of up-market products.

Most of these concerns clearly impact Southern Ontario and Quebec more than Northern Ontario. Nevertheless, it is in the best interest of the North to have a strong industrial base in Ontario. It is essential, therefore, that trade negotiations include safeguards to cover off these concerns and assure that freer trade has long term net benefits to all Canadians.

There is no question that some of our welfare economics will have to go. The Americans will not enter into any

agreement that permits subsidization schemes that prop up weak Canadian sectors giving them unfair advantage over their U.S. competitors. Other than subsidies of a temporary and reducing nature, such as Ontario's Tourism Redevelopment Incentive Program, subsidies should be eliminated in any event; so bargaining them away certainly would be a valid strategy. The problem will be showing Americans that what, in some cases, may appear as a subsidy from the U.S. perspective, is not a subsidy from the Canadian perspective, for example stumpage in the softwood industry. While most subsidies, and perhaps some of our trade-restricting marketing boards, will bite the dust, there is no indication the Americans would hold out for elimination or even modification of universal programs such as OHIP. As a result, we see no reason to fear negotiations with the U.S.

A fear we do have is that the benefits of lower tariffs, and consequently consumer prices, will be taxed away by federal and provincial governments sometime during and after a transition period. Before entering trade negotiations with the Americans, we would like to see a firm commitment from the Canadian and Ontario governments that they will not increase sales taxes or embark on any other schemes that would negate the consumer benefit of freer trade.

We do not fear Canada will be forced to follow U.S. policies any more than we parallel them now, nor do we fear Canada would lose its ability to make adjustments to the Canadian economy

through independent monetary and fiscal policies. In fact, we see a comprehensive trade agreement as a framework in which Canadians and Americans will better understand each other's problems and needs, lessening the risk of one government implementing policies that would adversely affect the other country.

We favour a comprehensive trade agreement with the U.S., not just because it will help Sault Ste. Marie, secure markets for our resource industries and lower our high consumer prices. We believe Canada is losing its position in international trade for a number of reasons that can be corrected by a focus on trade with our biggest customer. We can no longer wait for the world to knock on our door; we must learn to market aggressively, but fairly. We must develop better labour management relations to create an atmosphere where workers will support productivity programs. We need to get away from low-tech industries, make more use of modern technology, develop better quality management, attract capital to build new and efficient production facilities, and move toward up-market products with a future. Clinging to labour-intensive industries is not too intelligent because we cannot compete with Third World labour rates. As Lipsey puts it, "If we insist on producing their goods, we will have their standard of living." A comprehensive agreement with the U.S. gives Canada the opportunity to:

- 1) Accelerate restructuring of our manufacturing sector to take advantage of a rapidly changing and highly

competitive international marketplace;

2) Give stability, viability and diversification to the resource-based, export-dependent regions outside the Montreal-Windsor industrial corridor;

3) Raise the standard of living for all Canadians willing to work toward a common goal.

We cannot afford to be left behind in international trade, and we must take immediate steps to regain our position with respect to the rest of the world. The benefits of freer trade outweigh the risks, and the window of opportunity will close on us if we continue to analyze the issues to the extreme. We must start negotiations immediately and work out, as we go, a dynamic agreement that deals with realities, contains safeguards, and responds to change.

Gentlemen, thank you.

THE CHAIRMAN: Thank you very much. We appreciate the effort you put into this and appreciate at least that you are going to give the Kitchener Autoparts industry time to adjust before we come up here ....

Mr. Mackenzie.

MR. MACKENZIE: Just three or four points. You talk on one of the last pages about ".... while some subsidies and perhaps even some of our trade restricting marketing boards will bite the dust, there is no indication the Americans would hold out for elimination or even modification of even such

things as OHIP." Not only have a number of the programs been raised by spokesmen down in the States, but the core and the plight of the fishermen in Newfoundland and the Maritime provinces, is that the governors in the U.S. New England States have very clearly said that the UIC payments which are paid because the fishermen can only fish three or four or five months of the year, are a subsidy and an unfair subsidy. There are many indications given of the current atmosphere and this is one of the things we are facing a challenge on. And if you erase marketing boards with farmers, I know what would happen, very quickly.

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I'm wondering how you are so sure we won't face this kind of pressure? Because the U.S. negotiators are not going to be passive, unless they know they are going to get something from us as well.

MR. PEETS: With regard to marketing boards, I'm not challenging that marketing boards are bad, or good for that matter; they are there. I think that is one of the things that the Americans will want us to get rid of. I don't know that we want to.

MR. MACKENZIE: The representative of the U.S. Department of Agriculture, that we met with in Washington, pretty clearly stated that agricultural matters, all these issues would have to be on the table, and there are others, that somehow or other we could carve them up like the Autopact for example. But certainly, the impression I got, and I think most of us, was

that at least to start with, all of these things would have to be on the table. You wouldn't start negotiations unless you were carving some of these out, and that means you are exposing right off the bat. They are serious concerns and they are concerns today that result in jobs ....

MR. PEETS: Because they are on the table doesn't mean we have to give them all away.

MR. MACKENZIE: Well, if I --

MR. PEETS: And I think that we are always in a process of modifying our structures ourselves. Perhaps modifying some of these structures is not a bad idea and can be taken in conjunction with our negotiations?

MR. MACKENZIE: You see, one exception you make in your brief, obviously geared to these concerns you have, is the Northern Brewers?

MR. PEETS: Yes.

MR. MACKENZIE: Right off the bat?

MR. PEETS: Yes.

MR. MACKENZIE: Let me tell you the packaging industry made it very clear to us -- and whether they are right or wrong, it's only their word .... but they, in most of their plants, were finished, at least a good chunk of it, if we entered into it, having the number of industries that relate to it.

You talk about the additional transportation that would be possible for the Sault. The trucking industry told us

very clearly, given deregulation and the size of the American companies, they were probably close to being out of business as well, in Canada. So we might get a lot more trucking jobs, but it might not be Canadian companies and Canadian truckers.

I am just wondering how well you have researched some of the perceptions that you have in your brief here.

There is another point I wanted to raise with you. You say,

".... Central Canadian industries must look beyond their own special interests. They must see that the future lies in the challenges of hassle-free access to the U.S. mega-market, shifting resources to growth products and services, and specializing in what we do best. The future does not lie in propping up industries that can never compete internationally ...."

What about steel? They told us here this morning that internationally they cannot compete and probably never will. They can compete in the North American context, maybe, but that's it. Where do we go from there?

We went to free trade essentially in Canada in the farm machinery industry and if you go through what's left of it -- over the period of the last ten years and it's almost gone, in this particular country and province of ours. We had a good chunk of the electrical industry and that's almost disappeared.

Almost all of our industry, we cannot compete in

terms of world economic competitiveness because of the Third World and their wages.

So I guess the question I'm asking you, at what stage -- if we use your argument, we could close down most of our industries, but do we have or do we not have an obligation, or do you say that the Chamber would take a look at whether or not it is in our interests as a province or a country, do you see that we have the capability of surviving in some of the industries, even though industry on a world basis is not going to be competitive; in other words, is there something in terms of our own economic cultural sovereignty and identity that says Hey, we should have the ability, and I will use but one example: in the food industry, we used to provide 70 per cent of all the tomatoes we use in this country, in Canada. We can provide 100 per cent according to the agricultural ministers, both federal and provincial governments. Now we are down to less than 30 per cent, and I think it is actually less than 20 per cent. We have lost also now the ability to price it.

So I guess the question I'm really asking is, do we, if we accept that theory you put down so very clearly, do we then say it's really not important that we retain some existing industries, whether they are the old traditional industries, or not?

MR. PEETS: I don't believe that -- it was a long question, and it is very relevant, yes. But I think you are making a bad assumption. You are making the assumption that most

industries in Southern Ontario are not able to compete. I think they are able to compete. I think there are a few industries that cannot compete.

MR. MACKENZIE: So in effect, the brewers notwithstanding, or the packaging or trucking industries, we should let them go?

MR. PEETS: I'm not sure the brewing industry should be brought in here. That's a special deal, where you people raise your money from.

MR. MACKENZIE: But that's your argument going, right here.

MR. PEETS: I would hold out that if it wasn't for the need for us to use that industry to raise tax money that, very well, it could be an efficient competitive industry.

MR. MACKENZIE: I will give you the white goods industry in my town, Inglis, as a matter of fact, and four of the top officers, including the president of the company, they tell me, from seven it is now down to three and likely to go down to two within a very short period of time, and no way in that entire industry they can compete. So there are a lot of workers in the white goods industry.

MR. PEETS: As a consumer, I'm not sure why I should pay you, if you can't produce efficiently.

MR. MACKENZIE: I understand that, but you are talking about the total integration of our economy?

MR. PEETS: No.

MR. MACKENZIE: Well, you make an argument for the resource industries in Northern Ontario and I agree with you.

MR. PEETS: Yes, that is our perspective.

MR. MACKENZIE: But that is the only industries in Canada where we now have surpluses and substantial surpluses in trade?

MR. PEETS: That's what we do best. But you can't cut off the arms --

MR. MACKENZIE: They are capital intensive, they are not labour intensive, and they are also tariff free. They are already tariff free?

MR. PEETS: Yes. What about the non-tariff barriers? It is the non-tariff barriers that discourage investment in the resource-based industries. You cannot be prepared to invest in a resource-based company if you see that threat of protectionism. Why would you invest? The only way that you can invest in resource industries is if you know that the market is there and that it is stable and that somebody is not going to turn around and politically cut off your market.

MR. MACKENZIE: Finally the same question I guess I have asked most people that support the free trade position.

Where are the job gains? As I recall, other than some hoped for large pipeline easterly, we talked about, there wasn't even a willingness to commit themselves, we might say, what

we have in terms of the steel industry, and certainly the steel industry in Hamilton told us it would be protecting the status quo, was the best we could hope for.

So we know the down side, whether people like to count the winners, or the losers -- and they are substantial. Where are the actual gains?

MR. PEETS: That is what I would like to know.

Our perspective is, from the resource-based and steel industry, the Sault Ste. Marie small businessmen, from our perspective, is not from Southern Ontario. We recognise that is where the risk does lie and those things do have to be addressed, there is no question about it. But from our perspective in Sault Ste. Marie, if the Americans put up barriers, we are devastated.

MR. MACKENZIE: But alternatively, in terms of small plants, we have been told literally, where branch plant economy -- and fortunately not steel obviously -- that we run the risk of more of those plants being pulled out of Canada, because there is no rationale whatever, when they have excess productivity in the States, to keep plants that were set up here, only to access the Canadian markets. Why should they keep them here and how, out of the argument you have made here, that you would have a chance to pull in more small manufacturing plants into the Sault? I am just wondering how you can make that argument? I would like an answer to that argument.

MR. PEETS: I think access to the marketplace for

small businesses, secondary manufacturing businesses, up until now has been largely psychological. We are not that far away from the market and yet we keep telling ourselves we are.

MR. MACKENZIE: If what we are told is true, that we are likely to see a move of branch plants out of Southern Ontario, do you think at the same time they are going to move into Northern Ontario?

MR. PEETS: The future doesn't lie in branch plants. The future lies in developing small businesses.

MR. MACKENZIE: You think that is one of the mistakes we have made in the past?

MR. PEETS: We should be encouraging small business, the entrepreneurial spirit is what we should be encouraging. That is what we started with in Sault Ste. Marie and that is what we are trying to develop, is that entrepreneurial spirit, the small businesses.

THE CHAIRMAN: Mr. Smith.

MR. SMITH: Yes. I give you credit for taking the time to make this presentation.

There is one comment on the last page here, as I have read through your brief, and I would like to tell you I really believe that if we go with free trade, as you have stated on -- I have numbered the pages here -- No. 3, you said: ".... raise the standard of living for all Canadians willing to work toward a common goal." I really believe, if we go for free trade, you will

lower the standard of living of Canadians, and they might as well accept that. Because we just won't be able to compete. Have you any more comments on that?

MR. PEETS: First of all, I have not anywhere in the presentation mentioned free trade ....

THE CHAIRMAN: A comprehensive agreement ....

MR. SMITH: Very close? Let's say that?

MR. PEETS: I got up this morning and had enhanced access to my toaster, but I don't have free trade. Freer trade, yes, but not free trade.

MR. SMITH: Okay. Freer trade. In order to compete, we are still going to have to lower our standard of living, if it is as much higher -- what I have heard some of the other gentlemen say here, that our wage packets are, than our American counterparts, than certainly our Asian counterparts, to me there is no way but what we are going to be losers, if we open this entirely up, and whether it is free trade or enhanced trade or deregulation or whatever the word might be.

MR. PEETS: Do you not think that consumer prices would go down?

MR. MACKENZIE: They would have to. People wouldn't be able to afford to buy them, wouldn't have the money to buy them.

MR. SMITH: If consumer prices are going down, isn't there going to be a chain reaction? Because it is something like

the garbage problem, everybody wants to get rid of the garbage but they don't want it in their backyard. Everybody wants to see the other guy become more efficient, but they don't want a drop in their wage or standard of living. This is where I think we are going.

Another point is, on the next page --

MR. TAYLOR: This is irrelevant and so biased, because if -- at least 40 per cent of gross provincial product is dependent on exports, mostly to the United States, and if that market is closed to us, don't you think we are going to suffer a decrease in the standard of living, a substantial decrease in our standard of living if that happens; in other words, it is a fence against the inevitable, the way things are going now, that you have to presumably enter into discussions. So that what we are talking about here, I suppose, is an opportunity to maintain what you have and to enhance if you can?

MR. SMITH: You think we will gain that if we --

MR. TAYLOR: Well, I don't want to get into --

THE CHAIRMAN: I think we are getting into a discussion that the committee will have on Tuesday ....

MR. SMITH: On page 12 it says, "Clinging to labour-intensive industries is not too intelligent ...." and how are we going to keep these people, if these businesses become so efficient as everybody talks about? What are you going to do with the people that you have laid off in becoming more efficient?

MR. PEETS: Perhaps you are talking about the shoe

industry in Cambridge? Is this the type of thing you are referring to? Those are some of the people that may be seriously affected? I would suggest that it is necessary to retrain those people. It has to be done.

MR.SMITH: As long as you have got an alternative, that's fine.

MR.PEETS: There are businesses that open up every day, in the United States, and those people that open those businesses are opening them up because they see a market.

We can open up those businesses just as easily, we can go after that market. We need to identify the potential markets for the small businessmen, in the United States, that is a huge market that we can go after.

It is the big guys that have the exports to the United States, I think for the most part. I don't have facts on that, but I would think it is the big guys.

I think we want to help the little guy to get at that U.S. market. A fellow came to me yesterday, he had a great idea and a great presentation, in the infant stage, it was to bottle water and sell it to people in Cleveland.

MR. CALLAHAN: That is going to be our biggest commodity is water.

MR. PEETS: Now, that is the kind of entrepreneurial spirit that we need to encourage, and there are markets out there, just that kind of thing. That's where the jobs come from.

MR. SMITH: I hope you're right. But I will back off ....

MR. CALLAHAN: I think it is an excellent presentation, although there are a few things I think it fails to address. But before I say that, I find it very interesting, every brief that I have received, either in this committee or any other committee, is printed out nicely, and I'm sure that there is probably a package that is sent down to the U.S. every other day, so that they can read exactly what our position is and what our fears are; and I think that gives them grave concern. In any event .... and I say that as a person born in the United States. So I come at that with a learned experience. In any event ....

I notice here that you do not address the question of our tax system?

MR. PEETS: No.

MR. CALLAHAN: I hear the questions about the United States being concerned about the question of subsidy and really, the United States tax system is almost totally a subsidy. There are so many different write-offs that they get, and so many different approaches they get, they are indirectly subsidizing their industries, and I think that it is almost paramount that an entire revamping of the federal tax system has to be made, before you can make any meaningful decisions with regard to free trade or whatever you want to call it; or certainly giving away, the question of subsidy, because without that we may as well be the signers of

the 51st State.

The second question is that you do not address the question of a long known position of Canadians, that we would rather put our money in the bank than invest in equity capital; and that again is tied in with the tax system.

I must say -- without saying it in a partisan fashion -- I was very distressed by the huge majority that was gotten in Ottawa and the fact that they did nothing but tinker with the tax system, they did nothing to encourage people to invest in equity capital and in fact they did the reverse, they encouraged them to put their money in that safe, true chequing account. So that has to be addressed, and I notice that is not addressed, at least not specifically, in your brief.

The next one that is rather interesting -- and I don't know what you people experience in Sault Ste. Marie, but I know just recently some of the U.S. broadcasters wanted to know whether or not, if the World Series is played in Toronto, do we have snow on the ground and do they have to wear parkas or whatever.

I think there is a dearth of education on Canadians in the United States, as to what Canada is all about. They see us as a great place to come and fish for muskie and go skiing, and they don't realize we have four seasons just like they do. I think that is a very significant feature that has to be addressed, in terms of ever convincing entrepreneurs in the United States to invest in this country.

And the final one, you talk about the question of -- you do address this in your brief and I would have thought that if comments are being made here on a partisan basis, that my colleagues in the NDP would have jumped on it, the final part of page 12 and the top of page 13, "Clinging to labour-intensive industries is not too intelligent because we cannot compete with Third World labour rates." I suspect from that, you are advancing the cause for robotry, and robotry of course is beautiful if you are building robots, but if you are not building robots and buying them from Japan or Korea or any place .... it is just eliminating jobs for Canadians. So it seems to me that the whole exercise is one in futility in a sense, until you address some of those major issues that I have just alluded to.

I would also echo this phrase, and I hope that I'm reading it right, I think this protectionism nonsense is, No. 1, directly related to the U.S. elections. As they always do. You notice, in my community, they pull out all the jobs, they fold up an industry that has a parallel industry to one of the ones in the United States and take all the jobs down to the U.S., until the election is over. Then bring them back up again.

MR. PEETS: Did you see Paul Newman the other night, the movie where the volcano was erupting and the guy that was running the hotel, he thought it was nonsense that the volcano was going to erupt. Well, Paul Newman survived and the other guy didn't ....

MR. HENNESSY: But he made the picture ....

MR. PEETS: I'm not saying, and I don't think anybody is saying that protectionism is definitely going to come out and grab us, but we do have to be really concerned about it and take steps to see that it doesn't happen.

If I can go back, because it was a four-part question, I think, and a long question. I think you talked about first, the tax system and yes, I think you are one hundred per cent right, the tax system should be changed, should be overhauled, and maybe this is a good opportunity to bring it in.

THE CHAIRMAN: Theirs or ours?

MR. PEETS: I can't speak for theirs, I don't know enough about theirs, but I think ours definitely should be overhauled.

As far as your second part of the question, the banking, you suggested that people are putting their money into the bank rather than investing it?

MR. CALLAHAN: Or in a sock or in the mattress or whatever?

MR. PEETS: Yes, we're great savers. There is a crowding out effect of Canadian government budget deficits that I think somehow drives interest rates up and somehow induces consumers to keep their money in savings vehicles, saving accounts, term deposits and this sort of thing.

I would like to see interest rates come down and I

don't know how that can be done, but I think with interest rates down and stable, that the Canadian who up until now has saved, would be induced to put his money into investments.

There is no way when interest rates were 21 per cent, you were going to get me to put my money into the stock market; it was too risky. It was too unstable. But putting it into the bank was very safe. With low interest rates, I might be convinced to put it into the stock market or some other company. But I think that is a bigger problem than we can really address here.

MR. CALLAHAN: Just going at that problem, if you lower interest rates, you then decrease the dollar and increase our balance of payments, because U.S. investors are not going to bring their money up here, if rates are not higher than the U.S., or any other international person.

MR. PEETS: That's not necessarily so, in my opinion. When interest rates were a little bit unfavourable, during that crazy period of the recession, the capital did not flow in massive amounts out to the U.S., in fact, the capital came in from European investors who have different motives than Americans. I think we look too much at the motives of investors and try and speculate, that they are always looking for a return on investments. The West Germans -- and you would know this from Kitchener -- the West Germans tend to bring money to this country because it is a great place, it is safer than their own country, perhaps, and they have different motives for return on investment.

THE CHAIRMAN: And the tax situation in West Germany?

MR. PEETS: For whatever reason, that money comes in, not just because of the rate differentials between the United States and Canada.

MR. CALLAHAN: Just as a good example of -- and to close off, Mr. Chairman .... if you look at the movie industry, the TV industry is now making more movies in Canada because of the tax advantage of doing it here as opposed to the United States. So that is a key example of why the tax system is at the root of this being successful in any way, shape or form.

The second thing is I can remember talking to a bank manager one day, for a client of mine. I asked him -- the guy was borrowing ten thousand dollars on a two thousand dollar home (sic). I said, "Here is a guy putting a lot of money up front and getting ten thousand dollars, so surely the interest rate should be lower for that man than somebody else, because the risk -- I had always understood the interest rates were on the basis of risk?" "No," he said, "that's not true. See the bank across the street," and I said, "Yes," and he said, "They're charging that rate, so I'm charging that rate." So you have absolutely no flexible, free-market situation there either. And I'm very displeased that my friends, either the liberals or their friends, haven't addressed that question.

THE CHAIRMAN: Mr. Morin-Strom.

MR. MORIN-STROM: I have a question about the

perception I get from your analysis. You seem to be suggesting that Sault Ste. Marie geographically makes more sense in terms of trade with the United States and being involved with the Michigan economy than the Ontario economy? Do you think that Sault Ste. Marie would be better off economically as part of the United States?

MR. PEETS: No. I haven't ever thought of the question..

MR. MORIN-STROM: Your analysis then on wanting the natural ties, as a link, the ties to be with Toronto, and we could have much lower consumer prices, buying American goods here in the Sault and supplying stores in Kitchener and --

MR. PEETS: -- I would like to correct the impression we are taking jobs from Kitchener. I don't think so.

I think as I indicated in here, I think it would be a fantasy for us to get businesses to move from places like Kitchener to Sault Ste. Marie. I think we are looking for new businesses to open up and we want to be competitive in that area.

But with regard to the United States, it is natural that we trade with people across the border, it is more efficient, but that doesn't mean that we have to join the United States. I think our way of life is a little different and that we have many advantages that they don't have.

MR. MORIN-STROM: So you are not advocating economic integration with the United States?

MR. PEETS: Of course not. I don't think any of

our Chamber members would suggest that.

MR. TAYLOR: One general comment, Mr. Chairman, if I may, and I guess this is a message to you: when you are referring to Northern Ontario and Southern Ontario, don't confuse Southern Ontario with Metropolitan Toronto; and I say that not facetiously. Because Toronto, if you want to run Toronto statistics into the overall picture, it will dominate the picture. So that when you are talking on the sixth page of your unnumbered pages .... about a 15 per cent higher rate for food, gasoline, et cetera, if you visit my riding in southeastern Ontario, you will find that probably the price of gasoline is higher than in Sudbury or Timmins or Sault Ste. Marie --

MEMBER OF COMMITTEE: -- unless they are playing with it, which they usually do ....

MR. TAYLOR: -- and other commodities. I point that out, because I think when you are dealing with statistics and Southern Ontario, the emphasis seems to be on Toronto and I guess maybe, being rural Ontario and rural Southern Ontario, we suffer some of the same indignities in terms of prices.

MR. CALLAHAN: The slings and arrows of outrageous fortune ....

THE CHAIRMAN: Thank you very, very much. We appreciate your presentation and I am sure you appreciate the questions and the banter as well, and it has a good influence on what we are thinking. There are certainly things we are going

to have to consider and from what I can tell, are fairly representative as to the thinking in this community. So thank you very much, again.

Members of the Committee, we are --

MR. MORIN-STROM: I wouldn't say that.

THE CHAIRMAN: All right.

---Luncheon Adjournment



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Afternoon Session  
September 26th, 1985

THE CHAIRMAN: We want to thank everybody for waiting for a few minutes while we finished lunch.

Our first presentation this afternoon is from Mr. Lasse Skogberg, who has come here from Coppercliff, Sudbury, and has a presentation which is in front of you.

Mr. Skogberg replied initially to the advertisements placed in the newspapers in July and he is going to go through, take us through his presentation, and then be available for questioning.

Mr. Skogberg.

MR. SKOGBERG: Thank you.

Mr. Chairman, Members of the Committee, Ladies and Gentlemen, I wanted to do this as a private citizen, because all the governments talk about private citizens getting more involved in the political process. I also have a position and some of your committee members might be interested in my position in Sudbury.

I'm a director of Sudbury 2001, which is an economic development organization trying to create new jobs in Sudbury. Our Board consists of community leaders, government leaders, business leaders, academics, media and all the elected politicians.

I know that the MPP of this riding is contemplating starting something similar to this right here in the Soo, and I can convince you it is a good idea. That is the way you get things done, when everybody is involved. That is a little out-

side the point, but I would like to bring this to your attention at this time.

I apologise for my accent. English is my fourth language, so you might have some difficulties with my accent. But I hope you will bear with me.

Basically what I did in the brief, I took the pros and cons, because I do not think we can make a decision if we are for or against free trade. It depends on who you are, which industry or which segment of the economic society you represent. We all have our own views and there is no way you can be for or against the whole concept of free trade. Which does not exist, as you know. Absolute free trade does not exist and never will exist. It is just a term that we are using all the time.

The principal objective of my brief is to consider the pros and cons when we are negotiating a Canada-U.S. trade agreement.

The topic of free trade with the United States goes back to pre-Confederation times. We have seen all kinds of discussions on free trade, freer trade, trade enhancement, and the list goes on and on. We are not only talking about this topic, we are talking about several topics, and it all boils down to the same thing. Freeing us from trade barriers and other difficulties in trade negotiations.

We are simply talking about the ongoing process of trade relations. Canada is already participating in multi-

lateral trade liberalization process through General Agreement on Tariffs and Trade (GATT) negotiations. There are ninety-nine countries involved in those GATT negotiations.

However, our federal government feels that these negotiations are not enough. There is a need for a separate Canada-U.S. trade pact to shield Canada from rising U.S. protectionism and to secure Canadian access to larger markets in the United States.

Under the existing arrangement, by 1987, around eighty per cent of Canadian products will enter the U.S. duty-free while sixty-five per cent of U.S. products will enter Canada duty-free. As these tariffs come down, other barriers, so-called non-tariff barriers -- shortly called NTBs -- have taken their place and are damaging us more, they are damaging us more because we don't realize they are there.

The federal government of Canada believes that Canada-U.S. trade agreement would allow us to tackle this problem better than the existing GATT program.

We can solve some of the problems with GATT, but it is a slow process.

At the moment we have a need and opportunity to face our U.S. counterparts on this important issue. We have a strong enough mandate in Ottawa to act on this important matter. We have the right political mood between our nations to reach mutual agreement in principle. Whether we like it or not, our great province

of Ontario does not have much to say at this time. It is in the hands of our federal government and in the hands of the U.S. President and Congress.

This brief intends to discuss the pros and cons of bilateral free trade between Canada and the United States. We hope to raise new questions and promote a better understanding of the trade issue as a whole.

There are also some other very important factors to say that the time is ripe to enter into negotiations with the United States. First there is our seventy-three-cent dollar advantage. It provides additional help for competition purposes. As long as we can enjoy that seventy-three-cent dollar. They are trying to bring it up now.

Secondly, Canadian productivity has been improving a little bit lately, from the dismal record of the past. StatsCanada is not showing this improvement yet, but it is there and it is so lately, that it is not showing in StatsCanada. But Canadian productivity is improving.

Depending on the outcome of the agreement, Ontario certainly has the most to gain or lose, in Canada, between the Canadian provinces; and that is precisely the reason we should be extremely cautious. Regardless of how it goes, Ontario is the province where we can see the results.

There are some economic considerations and the principal benefit for Canada, from a deal with the United States,

would be the economic advantages in producing for a large market, made reasonably secure from trade barriers.

Canadians would have access to a market of 250 million people instead of 25 million people they now have.

In many cases, as we northerners know, our markets are not even 25 million. They are either local markets or provincial markets and they are much smaller than 25 million. So the change is going to bring great things.

This change would provide us with the opportunity to lower unit costs as volume increases and with the substantial increase in how well we can produce these products and fewer changeovers are needed. If you make a thousand envelopes in your factory now, you start making ten times a thousand and make ten thousand envelopes, you don't have to change your machinery, and this is a big job, which usually takes a day to do that and you lose a day's production, which might be thousands of dollars.

However, there will be risks involved in these changes. For example, the risk of large scale unemployment, from the massive closings of U.S. subsidiaries in Canada. A number of industries have to deal with that risk under GATT, the GATT agreement, in any case. This risk remains, regardless of how we deal with the trade issue.

Canadian trade unions fear that a trade agreement would contribute to their already existing fear of Canada losing

well paid, full -time jobs, for low-wage, part-time and temporary positions. That is the fear of the trade unions at the moment, if we enter into these negotiations.

Some political considerations. Canada's provinces, over the objections of Ontario, are asking the federal government for a quick start on free trade talks with the United States. Mr. Peterson's minority liberal government holds only 48 of the 125 seats in the Ontario Legislature. Federally, Mr. Mulroney has a comfortable two-thirds of Ontario seats - 67 out of 95. This leads us to think that the trade issue will have a federal tone at the start.

It is just the stats, you know, how many you have in your government, from the government side.

In the United States, the trade issue does not have the same importance as in Canada, as of yet. It is slowly increasing, but the process is a little slower than ours. President Reagan is openly opposing and vetoing Congressional protectionistic bills. Also, most of the concern of the United States is directed at imports from low-wage countries. Canada is clearly not one of those countries. They usually give us a break if they go against these countries, they give Canada a break, and that's the usual tendency we see.

Groundwork for these negotiations in the United States was done when the U.S. Congress passed the bill to authorize free trade with Israel and Canada to reduce or eliminate tariffs

and other trade barriers. U.S. trade with Israel totalled only \$3.4 billion last year compared to \$150 billion with Canada. This might mean that the proposed agreement with Israel would serve as a sample case in the congressional process. Most likely the smaller bill goes through before the big Canadian bill. This new legislation also forces Congress to deal quickly with any trade issues in either the Senate or House of Representatives, that has to vote on it within sixty days; and the delay is an element.

If we think our free trade discussions have been complicated in Canada, we should put ourselves in the shoes of our U.S. counterparts.

I stated all this, all these discussions, last date, and that they are going to have even more trouble than we are.

The political support for free trade negotiations has come from the Canadian Manufacturing Association, the Canadian Chamber of Commerce, the Business Council on National Issues and even from the Canadian Federation of Independent Business. Also the Macdonald Royal Commission also recommended that these talks would proceed.

On the other hand, the trade agreement negotiations are strongly opposed by a number of groups. The Trade Union movement is opposed and almost all farm groups in Canada are opposed. Also a number of women's groups are opposed. They fear that female worker industries, such as textiles, footwear and

electronics would be hit immediately. Federal Opposition parties are lobbying support to find weaknesses on the proposed trade talk preparations. We see that on TV all the time.

Our internal trade situation in Canada suggests that we should clean our own house first before we start negotiating for larger markets, since many segments of Canadian industry are limited to provincial markets instead of national markets. Ontario beer drinkers found that out during the recent brewery workers' strike. Beer was not brought in from Quebec or Manitoba, as you would imagine, but instead it was hauled in from the States.

In summary, maybe it is easier to sell many products abroad than to other provinces. Then again, in this case, free trade with the United States would be a good thing for us. If we have so much trouble between the provinces, then we can go down south.

There are some sovereignty considerations. Many Canadians believe that closer economic ties with the United States would weaken our already limited political sovereignty. We might have to change our provincial Crown Timberland leasing policies, change our Bank Act, Tax System and social policies in order to please our trading partners down south. These arguments go on. What about our industrial pollution laws? And our industrial safety standards? Should they be modified to satisfy our neighbour?

Some economists argue that there is no historical support for the belief that freer trade with the United States

would lead us toward political union. The boundary line is still there and so are the custom houses, against the prediction of Friedrich Engels, an economic determinist.

Economic free trade precedents such as EFTA and the EEC have proven that political sovereignty among the members strengthens under freer trade development.

Our sovereignty is an important part of our national identity. However, the sovereignty issue should not overrule the more important economic and social issues.

I would like to add, we might be getting a time in the future, when we realize that Canada is technically a kingdom, a monarchy and we need a king, once we become an independent nation, we need a king of Canada. Is it King Peter or King Brian or is it a blood king? If it would be a blood king, we would have to bring somebody from England, to rule us. Or we have other options. We can change our constitution and become a republic or another type of government.

THE CHAIRMAN: What was your option after King Brian?

MR. SKOGBERG: We could have a blood line king.

There are also some policy considerations. There are some concerns that a Canada-U.S. free trade agreement might force Canada to abandon some of its social and economic policies such as transportation subsidies, regional development grants, support for the fishing industry and unemployment insurance benefits. At least part of them or some bits that are related to trading issues.

Naturally, Canada should try to keep most of these items off the bargaining table. If not, the issue has the potential to become politically explosive.

What are the policy options for Canada? The existing fiscal, monetary, exchange rate, tariff, tax subsidy, transfer payments and so on, policies do not meet the demand of many Canadians. The comprehensive free trade policy should be established together with the whole socio-cultural-political policy package under federal-provincial agreements.

There are some GATT considerations. On January 1st, 1981, the GATT agreement on government procurements came into effect for the world's major economic powers, including Canada. Representatives of ninety-nine nations ended six years of painstaking negotiations by approving to cut tariffs by an average of 33 per cent over the next eight years.

Some Canadians feel that these GATT negotiations would be enough to bring us a better tomorrow in trading. An international body of GATT was set up in 1948. Thirty-seven years later we are still facing the same problems, which should no doubt tell us how long all this is going to take. Critics of GATT claim that these agreements have simply encouraged the use of non-tariff barriers. You kill one and then you get the other.

Trade officials say that these NTBs will be central to the next round of GATT talks scheduled to begin early in 1986. Getting the meeting underway requires consensus among the ninety

members. Support from some countries such as India and Brazil might be hard to come by. They fear that big traders, such as the U.S. and Japan, will receive all the benefits and the small traders would suffer.

I have also included sectoral considerations in some segments of the economics.

Agriculture. Several agricultural items are under scrutiny. We have all heard about the hog war involving \$17 per head countervailing duty and the dispute over the fact that Canadian farmers are using Chloramphenicol drug on hogs. This duty coupled with the non-tariff barrier of drug ban is clearly designated to help the farmers in Northern States.

Other agricultural items facing difficulties in U.S. markets are raspberries and potatoes. When the Reagan administration imposed quotas on sugar products last January, Canadian exporters suffered from these measures aimed mainly at other countries.

Access to larger U.S. markets itself is not enough to develop our agricultural sector. New research is needed in land quality, in grain and forage soil needs and in grain grading and handling systems. These policy measures must come from the government.

Forestry. The biggest bilateral trade difficulty is the stumpage fee that companies pay each provincial government for the Crownland timber. U.S. stumpage fees are lower and

therefore there is room for the complaint of unfair subsidies.

Lumber, pulp and paper industries face also other difficulties outside trade barriers. Reforestation, forest management and modernization remain to be the main problems of this sector. Maybe freer trade with the United States will speed up these processes as well.

Minerals. The mineral sector, particularly metals, has been exporting raw materials and semi-processed metals to the United States. Reduced demand for metals has become a major problem for the industry.

Canada has been able to stay outside the restraint mechanism designed to assist the suffering U.S. steel mills, but nobody knows how long this advantage is going to last. Free trade policies with the other industry developments are necessary to salvage this huge segment of our wealth, because the mining industry leaders feel that they already have free trade pretty well, and they are not really for or against free trade negotiations, because they feel they already have it. There is no problem there and they would rather concentrate on some other problems that they have.

Fish. The fishing industry in the United States has been imposing anti-dumping duties up to 20.75 per cent on Canadian dried salted codfish. New England fishermen want the present duties, which are less than one per cent a pound, to be raised to between ten and twenty per cent on cod, haddock, pollock, hake, flounder and sole.

Freer trade agreement with the United States in this sector of Canadian industry will truly be beneficial. The present inefficiency caused by the over-capacity would be eliminated and the industry would have an opportunity to boom.

Manufacturing. In manufacturing, the plants suffer from the inefficiencies of inadequate scale and specialization. They lack the modern capital and equipment, and their workers, even those who display exceptional effort, are burdened by a currency that is over valued related to most nations other than the United States. Growing numbers of Canadian producers are having trouble in all markets, including their own, with the United States in some cases being an exception. Maybe freer trade would provide a partial solution to these problems.

Conclusions. Thus, the following conclusions may be drawn, and on the last page I have just summarized in a short form what I have said.

To conclude, we ought to realize what is happening today in the United States of America and seal ourselves from the emerging protectionist measures to guarantee at least reasonable access to the large U.S. markets. Our main social and economical policies should not be part of the trade negotiations, because, if they were, our sovereignty as a nation could be in danger.

On the last page I have included some stats on Canada-U.S. trade for the first quarter of 1985. On the first table you can see the large surplus of raw materials and fabricating

material and the only deficit is in end products.

The second table shows Canadian exports to other countries in percentages. The U.S. exports have come up at 16.5 per cent in thirty years, and at the same time the United Kingdom has dropped almost the same amount, 14.6 per cent. And others, they have changed a little bit, as have EEC countries and Japan. So it is mainly between the United States and England.

Thank you.

THE CHAIRMAN: Thank you very much.

MR. CALLAHAN: That is an excellent paper.

It certainly brings me up to date on a lot of things I haven't considered.

I notice on the front page it says advantages and disadvantages, but as I read through it, I see only the advantages. What are the disadvantages?

MR. SKOGBERG: I mentioned the disadvantages under certain segments: trade unions are fearing certain things under economic considerations, and also in political considerations there is some disadvantage.

My intent was to raise more questions than to be for agreement or against it. But you might have a point there. I could have enlarged those disadvantages a little more.

MR. CALLAHAN: You seem to be a strong advocate and let me ask you, in preparing this, obviously you have considered perhaps the reality or lack of realities of the

protectionist policy we have seen demonstrated in the United States. Maybe you can explain to me -- you have obviously gone to great depth in preparing this paper, how do you explain the diametrically opposed positions of President Reagan and the legislators, with many of those legislators being in his own party, in terms of Reagan appearing on the surface, anyway, to be one who is trying to stop the protectionist movement, and the legislators being the ones who are trying to oppose it. You can't answer that, I don't think?

THE CHAIRMAN: I don't know whether the witness indicated that in his brief, that they were diametrically opposed?

MR. CALLAHAN: Oh no, I'm suggesting that is the reality.

THE CHAIRMAN: I don't think it is the perception we have.

MR. TAYLOR: I disagree with that.

MR. CALLAHAN: Is that right?

MR. MORIN-STROM: The protectionism seems to be from the legislators and not Reagan?

MR. TAYLOR: But as a response to protectionism, not as an answer or a reflection on their fundamental belief in freer trade.

MR. MORIN-STROM: Who? Reagan?

MR. TAYLOR: The Legislature. I don't want to get

into an argument here, but what I'm saying is that you have to be careful you don't misinterpret what is happening in the United States in terms of protectionist activities. We have heard of three or four hundred Bills before the Congress and that is a response to what the legislators consider unfair practices in trade, which have put the U.S. fair traders at a disadvantage, and that does not diminish their commitment to freer trade. So that's -- well, I will leave it at that.

THE CHAIRMAN: And most of that opposition is not aimed at Canada.

MR. SKOGBERG: Like I mentioned, it seems aimed towards low-wage countries, because they can produce these goods much cheaper than the U.S. or Canada.

MR. CALLAHAN: That is precisely the thrust of my question. I wasn't sure if you felt you were qualified to answer it or not? I don't understand why the legislators in the United States, in reference to the small items that refer to Canada, would see that as a threat, and yet the President of the United States, who presumably is equally as adept and astute as the legislators, would be taking a different position? Are we truly seeing here a reflection of local constituency arguments for purposes of an upcoming election, or are we in fact seeing a general overall attitude of the U.S. government towards cutting us out?

MR. SKOGBERG: Through my studies in political science -- and I think it is more a political question than an economical question ... the U.S. government system is so complicated that many times it boils down to the President trying to veto as many Congressional Bills as he can, but if he has three or four hundred Bills, there is no way he can veto all of them. They have a built-in system, a system built in so that they can push them through some other ways. They can change the Bills and push them through that way. It is a win-less situation for the President to try to stop it completely. In the end it is going to be a compromise between the President and the Congress, some kind of compromise, how many protectionist Bills and what kind of Bills they are going to put through and what kind of free trade they are going to have and with which countries.

THE CHAIRMAN: Mr. Hennessy.

MR. HENNESSY: When we were down in Washington, there was only one Congressman, told us about a Bill, specifically why he went against it, to some extent, and the other two hundred and ninety-nine, surely to God, are not all against Canada, and these other nations that have riled the Congressmen and their areas, and I think any of us, being politicians, and an area representative, if your residents come to you with a complaint, you have to safeguard your political backside, and bring in something to show that you are doing something on their behalf, but it doesn't necessarily mean that all those Bills are against

Canada and it is overblown as far as I'm concerned, because we are supposed to be such a great buddy, and I can't see where there is three hundred Bills against us.

I think it is the southern nations that have unfair practices, and it's all lumped into one, and some say there is three hundred protectionist Bills, but there may be only ten against us and the other two hundred maybe only eight or nine will be of any value anyway. Because it will only be local issues as far as the guy who is doing it, and when we said to him, the Congressman that spoke to us, that if we lift the \$3 tax that we are charging American tourists to fish in American waters (sic) he would pull his Bill, and that is how big an issue it was. He wouldn't have anything to squawk about then.

MR. CALLAHAN: Mr. Chairman, if I could have one further question and that is exactly what I'm getting at, I'm trying to determine just exactly how serious the matter of protectionism is against Canada. Or is this a tempest in a teapot?

And I suppose my second question relates to that in the sense of what are the advantages -- and maybe you can tell us from having prepared this paper .... what are the advantages to the United States on the whole scale, right across the board, in opening up free trade with Canada versus advantages to us?

MR. SKOGBERG: Answering your first question, it

is certainly -- what was the first question again?

MR. CALLAHAN: I wanted to know how serious, in light of what's been said by my colleague and what you have said in your brief, how seriously is the question of protectionism directed towards this country, as opposed to all the other countries, and does that not make this a tempest in a teapot?

MR. SKOGBERG: From what I have read and understood, they are not aiming it at us, but in some cases, like I indicated in the brief, in the case of sugar, for instance, it has hurt us, and in the case of hogs, those non-tariff barriers have hurt us, but it is all minor compared to what is hurting the Japanese or the EEC countries; and in most cases they have accepted the fact that we are neighbours and they except Canada from these rules, we escape in most cases, and what I have found true, they said it doesn't involve Canada.

MR. CALLAHAN: Then the final question is, what are the advantages to the U.S. versus the advantages to us? In looking at our exports and imports, in the last appendix that you have put in, what advantages are there to Canada having an opening-up to a market of 25 million, when we are going to have access to a population, if this goes through, of a far greater number? What would be the impetus for them -- apart from these localized situations of the hogs and the fish maybe, where they are really localized constituency problems, where is the great advantage to the United States, to push for a determinant

protectionist attitude or -- I am sorry -- a free trade situation?

MR. SKOGBERG: If I read President Reagan right, his intention in this is to -- he has talked to our Prime Minister and asked us to start these talks -- his intention is to show the world we mean business when we talk about free trade, and he feels Canada would be the easiest place to start and once you have free trade with Canada, then you can start working on free trade with Japan and free trade with the European Community. It is a starting point for President Reagan.

I don't know about Congress. It would be more complicated because there are so many minds, but the President, he has that in mind, it is either Israel or Canada, is the first country "we negotiate trade agreements," freer trade or whatever you want to call it, and then we can truly say that they mean free trade and they don't mean anything else. Then they can convince these other countries, "if you want to survive, you had better jump on the bandwagon."

MR. CALLAHAN: I read that, we are simply -- and particularly Israel, since Israel's exports are so minimal in comparison to ours, we are simply tokens that they want to use, is that what you are saying, as a lesson to the rest of the world, the tougher nations, in terms of bringing them on line?

MR. SKOGBERG: Yes. We are the starting point in the process. The United States has been talking about freer trade for years and years and now they have got tangled with this,

completely different things, with these protectionist Bills and all this stuff, they are in hot water, they have to solve that thing, and they feel the easiest way out would be to get an agreement with Canada. It is a political more than an economic decision on their part.

THE CHAIRMAN: This is a very interesting overview and I wonder, if you could, would you be willing to enlighten us a little bit more about your own background and that might weigh a little bit on our judgment.

MR. SKOGBERG: Yes. I come from a Scandinavian country, Finland, and I was an industrial engineer. Then I took an Honours B.A. course and won an Honours B.A. degree in Economics and Political Science in Sudbury. So I have covered both fields and I find, many times, that it is very interesting to be in the middle area, the middle area between engineering and economics, because usually they do not understand each other. The language is so different. Once you get politicians like yourselves involved, you are right in the middle of trying to listen to one engineer and one economist, and they all talk different languages. But once you understand both fields, it really gets challenging and interesting.

THE CHAIRMAN: Yes. Another thing you mentioned in your brief, that women's groups tend to oppose freer trade with the United States. Do you have any examples of women's groups that have done so? I don't think we have heard that spoken of before?

MR. SKOGBERG: Yes. I have read that in the news media several times. I can't recall where I have read it, but I have read it several times, it is a fact, that they are afraid of losing their ....

THE CHAIRMAN: Apparently they have made submissions to the federal commission?

MR. SKOGBERG: Yes.

THE CHAIRMAN: Mr. Lane.

MR. LANE: Thank you, Mr. Chairman.

I want to very much congratulate you, Mr. Skogberg, on your brief, it is well prepared and worked out. In going through your brief, you say, it would seem to me, that you are a supporter of free trade and in most cases in your brief you are saying move cautiously, showing both sides of the coin, so to speak, that there could be some advantage and there could be some disadvantage?

On page 6, when you are talking about fish, you made a very broad statement and more or less came out and said it will allow the industry to have the opportunity to boom, and didn't really put any cautions on it? Why fish, particularly?

MR. SKOGBERG: They have a ready market when they go south, than let's say in the Maritimes. I visited there myself, several times, and they don't know what to do with the fish when they get it, they get so much of it, and it would be nice if they could take a boat and go down in the other harbour

there and somebody would buy it right there. It is a real opportunity for them, and I don't know if it is the same opportunity for the U.S. fishermen as for us, because they have bigger markets right at home and they are not interested in the smaller markets in the Maritimes. But we have a much bigger interest to go down than they have to come up, and that is why I feel strongly that is the most beneficial sector in Northern Ontario.

MR. LANE: There isn't any other commodity that is going to have the same golden opportunity you feel?

MR. SKOGBERG: Yes. When it comes to Northern Ontario, we would benefit in that, especially in Sudbury, in the manufacturing, it would open up new opportunities and we can use the economies of scale, we can increase our production and decrease the price, that way, and can compete with the U.S. goods. It would definitely benefit the manufacturing sector.

MR. LANE: You are not really saying free trade, you are saying freer trade?

MR. SKOGBERG: Freer trade, yes.

MR. LANE: Thank you.

THE CHAIRMAN: Mr. Smith.

MR. SMITH: Yes. Thank you, Mr. Chairman.

The conclusions there, you mentioned Canadian sovereignty. I was born in Canada, I'm a Canadian and I'm certainly an Ontarian. How much weight do you put on the fact

that if we went far enough or it was allowed to go far enough, Canada, and particularly Ontario, could lose their sovereignty? Is that a real big thing with you? Would it make any difference to you if Canada was to be swallowed up in the United States? How big is it?

MR.SKOGBERG: Coming from Europe, I have to honestly say that Canada is part of the States already, there. The way they think about Canada, they think it is like one state. They don't know where Canada is.

MR. SMITH: How long ago is it since you came here?

MR. SKOGBERG: I have been here fourteen years.

MR. SMITH: And that is what an outsider's point of view is, they think Canada is the States?

MR.SKOGBERG: Yes. The only thing they might know is hockey comes from Canada, but they don't know that Canada is a separate state. It is a very common thing in Europe, that people don't know Canada is a separate state and how big Canada is. They say, "If you live in Toronto, go and visit my aunt in Vancouver." They don't realize the distances.

MR. SMITH: So you say -- I never heard anybody say that before ....

MR. SKOGBERG: It isn't really an answer to your question though.

THE CHAIRMAN: Some Americans view Canada that way too.

MR.SKOGBERG: I go down to the southern States and talk about Canada and they say, "Do you have a president there?"

MR.SMITH: Are we not making all the right moves then, that we should be, if you are hearing from Finland that Canada -- fourteen years ago -- was part of the United States?

MR. SKOGBERG: They feel that way, people think that way, they don't know any difference between Canadians and Americans, other than hockey. It is North America and it covers all of Canada and the States.

MR.SMITH: So I guess you would have to say that you are not particularly concerned if Canada loses its identity? Or is that a loaded statement?

MR.SKOGBERG: A little bit loaded. I feel the vibes when I sing Oh Canada, on several occasions. I wasn't born here, but I feel the vibes, I have to say that, and I would be really saddened to see us lose completely and we still have our own ways and means of life and own culture and it would be really a shame to lose it; and that's why I'm saying it is very important, our identity, we have to make sure we save that part of our nation.

We have to be careful, like Mr. Peterson is saying, and I think Brian Mulroney is thinking right now, because he is delaying his decision, I think he is thinking on the same lines, we have to put the list down, what we are going to put on the

bargaining table and what we are not going to put on. He has to make that up first, before he can really start talking.

MR.SMITH: I would hope that most Canadians feel that we should not lose our identity and that's all the questions I have.

THE CHAIRMAN: That's the problem that Finland often faces too, isn't it, that of being overshadowed in size and in power by the Soviet Union?

MR.SKOGBERG: Yes. I'm very familiar with that situation and it creates some problems.

MR. MORIN-STROM: I don't think most Finns view themselves as being identified with the Soviet Union?

THE CHAIRMAN: I didn't mean it that way.

MR.SKOGBERG: No, he didn't say it that way. He said overshadowed. It's a big neighbour and they tend to --

MR.MORIN-STROM: There is a distinct identity between Finland and the Soviet Union?

MR. SKOGBERG: And there is also an Iron Curtain between those countries. Don't forget that. There is a true Iron Curtain. I know more about the Soviet Union when I live here than I ever knew in Finland. I never heard a thing from across the border because of the Iron Curtain.

MR.SMITH: Maybe we should go to Finland, instead of Canada, should we?

MR. HENNESSY: Good idea ....

MR. SKOGBERG: But they are working on the same principle towards the Soviet Union, small country like Finland, they start doing, exporting to the Soviet Union, because they have a bigger market there. They are doing exactly the same thing and you can't talk about the free market, because the Soviet Union wouldn't sit down to talk about that.

THE CHAIRMAN: You are saying there is no cultural exchange at all?

MR. SKOGBERG: No.

THE CHAIRMAN: Mr. Morin-Strom.

MR. MORIN-STROM: Under a freer trade arrangement, do you feel that the business interests would require or we should be heading towards a more common set of business rules between Canada and the U.S? You are putting in qualifications I think, in other areas, in terms of one integrating in the U.S., and in a freer trade arrangement, do you feel that it is necessary to be able to operate under the same rules in both countries?

MR. SKOGBERG: No. In the northern part of Europe -- and I followed that very closely -- and anything like that, didn't come up at all in these talks. As I say, it is a slow process and it's not going to happen overnight. It just takes years and years to change and you go up segment by segment.

MR. MORIN-STROM: So in Canada you don't see pressures on the business community in Canada and pressures on the government to ensure that they don't have to live up to tighter

environment regulations than America --?

MR. SKOGBERG: No.

MR. MORIN-STROM:--or the same kind of labour regulations as the States --?

MR. SKOGBERG: No.

MR. MORIN-STROM: -- or the same tax rules?  
The same tax rates?

MR. SKOGBERG: I'm not afraid of that at all, because it would be too difficult to start negotiating on that basis. If you have free trade, you have free trade and you do what you do better than the other guy, if you can; and if you can't, you go out of business and some other guys take over.

MR. MORIN-STROM: In order to protect those differences, and one kind of those differences that has been attacked by the Americans, the countervailing duty actions, which is essentially we have exemption from countervailing duty actions at the border.

MR. SKOGBERG: Yes.

THE CHAIRMAN: All right. Thank you very much for your presentation. It was very well done and we will certainly give it great consideration.

MR. SKOGBERG: It was my pleasure to be here.

THE CHAIRMAN: Thank you for all the effort you put into it and thank you for coming here.

Next we have Dr. Krishna Kadiyala, but before we

hear from him, we will take a one-minute recess.

--- Short Recess

THE CHAIRMAN: All right. If we are ready to go?

Dr. Krishna Kadiyala is a professor of economics at the Algoma University College and Dr. Kadiyala, if you could just lead us through your presentation and then we will entertain questions afterwards.

DR. KADIYALA: Thank you, Mr. Chairman.

Mr. Chairman, Members of the Committee and Ladies and Gentlemen, I am pleased to be here to present this brief and actually my brief is really a brief. This is more or less divided into three or four sections. What I am going to do is probably go through these three or four sections.

The first part mainly deals with the general, a couple of information statistics, and focuses on the national level.

The second part deals with the provincial economy and the third part deals with, comes to Sault Ste. Marie and its effect on Sault Ste. Marie and finally, we have a few concluding comments.

Canada exports nearly thirty per cent of its Gross National Product and nearly three-quarters of it goes to the United States. That translates into about twenty per cent of

Canada's GNP goes to the United States. In a way, this is actually an under estimate and if we take our Gross National Product and if we subtract our government from it, which is non-tradable, if you read the final GNP, that GNP that is exportable, that would redefine the GNP, and then if you take out exports to the United States, we are basically relying on about fifty per cent of our GNP, of our GNP, going to the United States. That is a very large figure and that is quite a dependence on the United States.

The impact of this is about three million jobs created from the export sector, out of which about more than 1.2 million alone are in the manufacturing sector.

On the other hand, the Americans only export ten per cent of their GNP. Of that, about seventy per cent comes to Canada. That translates into about seven per cent of the American GNP which is dependent on Canada.

If we look at Canada, only thirty per cent of the American goods are subject to tariffs, and the tariff rates are about eight per cent to nine per cent as of 1987. But a couple of years ago, in 1979 (sic) they used to be as high as fifteen per cent.

On the other hand, in the United States, only a quarter of our exports are subject to tariffs and their tariff rate is somewhat lower than ours. Their tariff rate will be about five per cent when the Tokyo round-GATT negotiations come into force.

We can look at some of the possible gains and losses due to trade. One of the arguments that is put forward in favour of trade is that they say Canadian firms will have access to something like 250 million. On the other hand, the American firms will have access only to 25 million. About one-tenth of the access we will have.

Another argument that is in favour of trade is some studies indicate our GNP could grow by somewhere between three per cent to ten per cent and Canadian real wages would go up significantly, I think the figure was something like twenty-five per cent, real wages, and that comes in two forms: one is because of the improved productivity, our monetary wages could go up, and because of freer trade, our retail prices level could go down. So a combination of these two would mean increased, higher real wages for Canadians and Canadian workers at large.

But on the other hand, one of the big problems with freer trade is that there are many sectors that are quite vulnerable to free trade, sectors like clothing, leather, furniture and some manufacturing. In these sectors, profit could go down significantly and that would mean heavy layoffs. Some studies indicate that as many as six per cent of the work force could be transferred from one sector to another sector. Obviously there is no assurance that they would be transferred immediately. That would mean temporarily at least, there is high structural unemployment, and they have to be retrained

through various government programs, they have to be relocated, and that is left to various government agencies.

Also one of the problems with this is there are many fears that Canadians might lose their political sovereignty, economic and social and cultural sovereignties.

It is true that in the long run they might lose their sovereignties, but I think in the long run the socio-economic benefits would have to be competitive and they would have to be determined competitively, even though we lose them. But if we are going to free trade, they would have to be on both sides determined competitively, in the market.

I think I can list many advantages and disadvantages of trade, but I don't think I need to give any more than a few examples. One of the benefits is that now more than ever before, the Canadian public at large, and this is men in particular, are in favour of discussing freer trade with the Americans. I think there is a recent poll which indicates about eighty per cent of Canadians are in favour of discussing freer trade with the Americans, awhile ago, and that was quite low.

Also, from the American point of view, it looks like a good idea to discuss freer trade with the Canadians, because Reagan can go back and tell the other trading partners, like the Japanese and the European Community, that, "Look, we just negotiated freer trade with the Canadians and we would like to do the same thing with you," and they are quite worried about trade

with Japan and that the Japanese market is not open to the Americans.

So that is an advantage.

Obviously there is no guarantee that the Americans would sit down and negotiate for freer trade, but at least there is an incentive for them to negotiate for freer trade with us.

On the other hand, I can understand many, organized labour and our Premier Peterson of Ontario, are not very enthusiastic about freer trade with the United States.

So if we look at Ontario alone, suppose we take Ontario out of Canada and define Ontario as a separate country, then Ontario would be the largest trading partner with the Americans, Ontario as a separate country. In which case Ontario would be the largest trading partner, Japan would be second, and Canada excluding Ontario, would be third, the third largest trading partner with the Americans.

Currently more than eighty per cent of Ontario's exports go to the United States and at the same time more than eighty per cent of Ontario's imports come from the United States.

Another way of looking at the possible impact on Ontario is you can look at all the protected jobs in Canada, about half of these protected jobs are in Ontario alone, and I think it would be Quebec has the next second highest burden, they have the next highest protected jobs.

So that that means obviously, there are fears that

Ontario could suffer layoffs, there could be many layoffs in Ontario, many plant closings in Ontario.

But seeing as we cannot take that very seriously, I think the market in North America and the rest of the world, is becoming very competitive. Markets in developed countries, markets in less developed countries, markets in countries like NICs, newly industrialized countries, Korea, Brazil and Mexico, they are capable of mass producing goods like steel and automobiles, et cetera.

That means if we cannot address this problem now, in the long run we might be losing more. It is true, we have to lose in the short run, but if we don't address this problem, in the long run we might lose even more.

I have a few comments on the local economy and, in particular, if you take our largest employer in the city, Algoma Steel, they export something like twenty-five per cent of their product to the United States, they export about twenty-five per cent of their product and most of those exports go to the United States, almost twenty-five per cent of Algoma Steel's exports go to the United States.

They are about the average in industry, and industry as a whole exports about fifteen per cent of their product to the United States. Most, if not all, of Algoma Steel's exports are subject to tariffs in the United States. They vary anywhere between zero to ten per cent. But the average tariff rate on

Algoma steel products and the steel industry as a whole, is about three to four per cent.

On the other hand, if we look at the steel products that are coming into Canada, the American steel products, the average tariff rate is somewhere around seven to eight per cent. So, in a way, steel products and obviously as a product also, we are getting a little better rate, our products are subject to a lower tariff rate than American products are in Canada.

Currently I think there are about four hundred protectionist Bills in front of Congress, the U.S. Congress. Most of those bills are aimed at countries like Japan, South Korea, some countries in Europe and some Third World countries. However, if they implement any of these Bills, it is very hard for Canada to escape any of these protectionist measures. Somehow I think Canada would be involved at some level. We don't know how much Canada would be affected.

This means that -- since we are referring to Algoma Steel -- the steel industry as a whole and Algoma Steel in particular, in the city, would be affected if they take any measures.

And obviously, we know that this is an election year in the United States and we cannot underestimate the strength of the American Congress. So that is one thing where we may not be able to maintain the status quo, as far as the steel industry is concerned, even though it is possible that they might exclude it.

But there is no guarantee that they would.

Actually, the steel industry is more concerned about the imports that are coming from outside North America than between the United States and Canada.

Another major employer in the city is St. Mary's Pulp and Paper; as I understand it almost one hundred per cent of their output goes to the United States. So it seems to me more or less they would not be affected significantly either way, because most of their products go to the United States and they are not subject to tariffs in the United States at this moment.

Sault Ste. Marie has a relatively small agricultural base and it is reasonable to assume that this would not be affected.

Also, one of the assumptions that I'm making is that most of the marketing boards in Ontario and elsewhere would remain and maintain their status, the marketing board would not be eliminated, that is one of the assumptions I'm making. So given that, it is reasonable to assume that this small agricultural sector we have in this area, would not be affected significantly.

We have small business in the city, and as far as retail business is concerned, we know currently our prices are much higher than Southern Ontario and south of the border. If people are allowed to go to south of the border and purchase anything they want to, obviously they will go and buy all sorts

of things, furniture and clothes, and appliances, everything, if they don't have to pay any duty.

But if there is freer trade between these two countries, the Soo retailers can purchase these goods either from Toronto or from south of the border at a comparative market rate, the wholesale price and the retail price in Sault Ste. Marie would come down significantly.

In fact, my feeling is that Sault Ste. Marie is centrally located in this area, Sault Ste. Marie, for example, could act as a regional distributing centre, if the proposed freer trade goes through. We could serve parts of Ontario, we could serve parts of Michigan and serve parts of Wisconsin, because we are centrally located here.

In fact, Sudbury, for example, it seems to me we could serve Sudbury, because we could get goods from the lower peninsula, either Detroit or Flint, they could come here and from here we could distribute them to other parts of the province, from here. That is one thing, I think that is a good possibility that might happen.

So overall, I think retail business would benefit from freer trade.

The other sector in Northern Ontario is mining and natural resources. My feeling on this sector, mining and natural resources, is somewhat unclear. It is reasonable to assume that

some of these companies would move closer to the natural resources, but on the other hand, mining is a very capital-intensive sector, and they don't want to take any risk in moving into a place and finding out six months from then, or maybe five years from then, that there is no demand for that product.

If you look into the world supply of some of these goods, raw materials, they could fluctuate severely, both the output and the prices. So it is not clear whether they would take that risk and move here with all the capital, and obviously they need a lot of capital for the mining industry.

So what I think is required here, instead of that, is more research into this area, something like in the United States, where they have rapidly growing pine forests for the pulp and paper industry; and that sort of research and development is required, so that we can protect and at least keep the existing industry in this area.

That means in the short run, I don't think there would be a significant effect in mining and natural resources, but in the long run, in fact, we could lose unless we do something about it, again, through some sort of research and other supply-management problems.

Another big industry in Sault Ste. Marie is tourism and here we have, given our higher retail prices, some people go to south of the border -- in fact, I guess they come here on their vacation, go south of the border and buy something and come back.

On the other hand, if we have freer trade, the prices here could be lower and we could keep some of the business in the city, instead of giving it to either Southern Ontario or to south of the border. Those that are coming into the city could in fact come here and buy from here, again if this acts as the distributing centre and thus offer lower prices.

In all these discussions, it is very hard to avoid the exchange rates, no matter what sort of free trade or freer trade we are talking about, the exchange rate is very crucial to anyone; and in fact, I think the exchange rate on Algoma Steel's exports, St. Mary's exports, our tourism and other exports in the city, obviously we don't know how it would affect it; in fact, my feeling is that the impact of the exchange rate would be and could be a lot higher than the impact of trade barriers on Sault Ste. Marie's economy.

Obviously, it is up to monetary policy and fiscal policy to take care of exchange rates, but we have to realize that trade barriers are nothing compared to the fluctuation in the exchange rates.

In summary, there are many benefits and there are many costs, and obviously if there are only benefits, we don't have to discuss all these pros and cons. So what we have to do is take the net benefit and cost into account.

My feeling is I'm somewhat inclined to favour closer trade relations with the United States, maybe somewhat freer trade

with the United States, and at the same time we are to realize that the benefits and costs are unevenly distributed throughout Canada, among the provinces and among individuals and among groups, and it is reasonable to assume that provinces like Ontario and Quebec would lose more than provinces in other parts of Canada.

So, one of the solutions could be that we should go at a slower rate, maybe take as long as ten years and longer, and in fact, since Ontario has almost half of the protected jobs, they could even get some special treatment, as far as the elimination of the trade barriers are concerned.

Maybe we should be able to negotiate for some guarantees on plant closures, and some minimum number of jobs in Ontario, similar to the Autopact? So, that way we might be able to satisfy some sectors, some groups, and at least we are not saying we are going to go ahead with freer trade, we are going slowly and making sure that it would not have a devastating effect on the whole province.

In general I think it is reasonable to assume that Canadian firms would have a harder time to adjust than their counterparts, the American firms, so that means it is not unreasonable to ask for something like the following: we can ask the Americans that the trade barriers on Canadian goods should be eliminated much sooner or at a much faster rate than we eliminate trade barriers on the American goods.

Actually, if we look at the tariff rates, most of

them are nuisance tariff rates, anyway. American tariff rates are something like five per cent on Canadian goods, by 1987. So these are what we call nuisance tariff rates, those that are less than four per cent. So these can be easily eliminated in the first couple of years, as far as the Americans are concerned.

MR. TAYLOR: You are talking about averages?

DR. KADIYALA: Pardon me?

MR. TAYLOR: You are talking about averages?

DR. KADIYALA: Yes, that's correct.

MR. TAYLOR: Because there are cases where they are much higher.

DR. KADIYALA: Yes.

Another thing that might come out of this, is maybe we can have something like sectoral customs unions? If we look at our steel industry in particular, I think they are more concerned about the imports coming from the rest of the world, and they are not really concerned about imports between Canada and the United States.

So what we could do is, something that might come with the discussions on freer trade, that maybe on a sectoral basis we can go for something like a customs union, that is set a specific tariff rate, on outside products coming into the country.

As I was saying, the impact on the economy is quite severe and so many jobs would be replaced, there have to be so many

transfers and, as I said, something like six per cent of the labour force would be transferred from one sector to another sector.

One way of cushioning the impact is we have to allocate substantial funds and according to the Macdonald Commission, reporting something like \$4 billion is necessary to offset this. We have to allocate these special funds for retraining and research and development relocation. So in all these cases, I think those funds would be necessary to cushion the impact.

Finally, since we are in Sault Ste. Marie, my overall feeling is I think free trade for Sault Ste. Marie would be better overall.

THE CHAIRMAN: Thank you very much. Mr. Smith.

MR. SMITH: Yes. Sir, I gather you haven't been in this country long -- or have you -- and I wonder, which country did you come from and what are your observations of Canada from another country's point of view? The same as I asked our last speaker.

DR. KADIYALA: Well, how far should I go? I have been in Canada for more than ten years. Before that I was in the United States for a couple of years and before that I was in India.

MR. SMITH: Our last speaker said that he saw Canadian sovereignty different from Finland, than we as Canadians, some of us, see it, that live here and I just wondered, did you think Canada was part of the United States?

DR.KADIYALA: No. I didn't think that Canada was part of the United States.

I think sovereignty is, I think it varies from person to person, it is a personal view. I think it is an important issue that has to be addressed. Some people are very sensitive to that, more than others, and we have to maintain some sovereignty, I think, and Canada I think is a small, nice, peaceful country and nation; and if you go to Europe and they ask you where you are from, you tell them you are a Canadian and I don't know about Americans, but if you are a Canadian, you probably would be respected, the same way as an American.

MR. SMITH: Thank you very much.

THE CHAIRMAN: Mr. Callahan.

MR. CALLAHAN: In the previous brief we had, we were told in an appendix, that exports and imports overall were greater exports with Canada, then imports from the United States?

DR. KADIYALA: Yes:

MR. CALLAHAN: And some products were significantly higher: raw materials, tremendously higher, fabricated materials as well. That being the case, and perhaps you can tell us this, as an Associate Professor of Economics as well as from your brief sojourn in the United States, what advantage -- and recognising you say that tariff barriers now are really incidental -- what advantages are there between free trade for the United States with us, and forget about us with them, what advantages are there

for them with us?

DR. KADIYALA: Well, see, Americans, for example, about ten per cent of their product depends on Canada.

MR. CALLAHAN: Yes, but what I'm getting at is, if many of the tariff items as you say are just nuisance tariff items, what is the benefit? I mean, is this exercise by the United States being done with us and Israel simply to open the door to freer trade with countries that they are having real problems with, like the Pacific Rim countries and so on?

DR. KADIYALA: That is one of the advantages, one of the things that the Americans would look into, as one of the advantages, as I said in the brief; that is, if they negotiated freer trade with Canada, then they can turn around to other countries like Japan or the European Economic Community and convince them, "We are interested in freer trade," and Reagan is one of the big supports of a free market and free trade. He could go to Japan and tell them, "Look, we are negotiating freer trade with Canada and we also want to do the same thing with you," and I think they are quite concerned about the Japanese trade deficit. So I think that is one of the advantages that the Americans have, if they can negotiate freer trade with us.

The second thing is they have been complaining about our FIRA for a long time, and to some extent I think that the problem probably is solved, because that is changed to Investment Canada now and that is one of the things they would like to use

Canada for.

I think another complaint that they had for a while was our oil and gas industries.

MR. CALLAHAN: Our what?

DR. KADIYALA: Our oil and gas industry.

MR. CALLAHAN: Those are all changing, those have all changed, and that's why I don't understand and what I'm getting down to is, do you perceive the exercise going on in the United States simply using Israel and Canada, as a leg up to deal with the real important countries, that they see as a threat, the Pacific Rim countries and various other countries?

DR. KADIYALA: That is one of the major advantages that the United States would see they would get out of this freer trade, yes.

MR. TAYLOR: Mr. Chairman ....

I guess you can't discount the fact that Canada is the biggest single trading partner of the United States? We take something like twenty per cent of the total exports. So that we are a significant trading partner? So that itself is important, plus the fact that there are many non-tariff barriers that are a source of aggravation as well.

MR. CALLAHAN: Why do they use Israel and Canada? That's what I don't understand. Israel, the export and import quota is very insignificant.

MR. TAYLOR: I think that would be an entirely

different situation and probably is politically inspired, and if they can't-- at least the message I get, if they can't make a deal with Canada, how can they make a deal with Japan or any other country?

MR. CALLAHAN: The question has been answered by my colleague.

DR. KADIYALA: To extend your comment: about seventy per cent of their exports come to Canada and, if we take Japan, that is very significant. Israel is very, very tiny at the moment. So, I'm able to assume that they are very keen in expanding that seventy per cent, which transfers into so much of their GNP.

MR. CALLAHAN: One further question, if I might, Mr. Chairman.

If, for instance, Canada and the United States, and let's say Israel, effected a freer trade process, which would then carry over to the Pacific Rim countries -- and maybe you can't answer this .... does this mean then Canada has to enter into a freer trade program with the Pacific Rim countries as well, and what effect would that have in terms of the importation of motor vehicles from that area, on specific industries in Ontario?

DR. KADIYALA: That is, I think, one of the so-called third options we had under our former Prime Minister, Mr. Trudeau, his terminology; and he suggested we had a third option, that is trade with those countries, the so-called Pacific Rim countries.

I think for the last few years, our share with those countries has gone down from, it used to be something like twenty-five per cent for exports, and now I think it has dropped to below ten per cent. I don't know how we interpret that.

In a way, I think we are somehow not quite successful, very successful, in trading with the Pacific Rim countries.

MR. TAYLOR: It may be, it could be reflected in that, our trading has increased with the United States -- and may be because of the auto industry -- recently? It would distort the other figures as well, in that it is now ninety per cent on exports instead of seventy per cent, and then it would distort that other figure, possibly?

MR. CALLAHAN: That doesn't address the question I put. The question I put is, if somewhere down the road, when this issue is resolved in the United States, and the United States uses this as an example to open up freer trade with the Pacific Rim countries, are we also placed in the position of having to do the same thing and, if we are, what effect would that have on the importation of particular products that have a very definite impact on Ontario? It is a circular situation. You never get off the merry-go-round, and that's where I think we have to look at, as well as down the line, as to what is the impact at that stage of the game; places like Windsor and Oshawa, and so on.

Anyway, Mr. Chairman, I'm speculating now out loud.

MR. MACKENZIE: There is another very serious aspect

of that, and that is to some extent the U.S. in the last couple of years has really given up on their own domestic auto industry. We have had in five years -- or less -- \$5 billion Japanese investment, putting up Japanese-American plants, and we have already been warned as to what that could mean in terms of the Autopact and auto exports, once the new controls and the new plants go in, that are not really the previous American-owned plants we knew.

DR. KADIYALA: If I may address that ....

MR. MACKENZIE: The Autopact is a good chunk of that trading imbalance, which affects our trade with the U.S. right now.

DR. KADIYALA: I think it is reasonable to assume that there would be some safeguards in this case. What we assume we will have is a freer trading agreement with the United States; and if one of these countries in this group, goes to a third partner and negotiated a freer trade agreement with them, I think the other partner has something to say about it. I don't think it is reasonable to assume that the third partner would sit by and let those two countries negotiate freer trade.

MR. CALLAHAN: That's the question I'm asking and that's one of the points that will have to be negotiated anyway.

MR. MACKENZIE: That is presuming that we would be part of their negotiations with the Pacific Rim and another country, and I think that's stretching the presumptions a fair degree, that

they are going to agree to that.

DR. KADIYALA: I think we have to negotiate for that, we have to have that, and that is one of the safeguards.

THE CHAIRMAN: If I may interject, I have just been handed a note by one of the reporters that Prime Minister Mulroney has asked Mr. Reagan to ask Congress for approval to pursue free trade talks with the United States and the Prime Minister intends to meet with Mr. Reagan next spring, for talks with the prospect of a full trade deal taking place in the future. Apparently Premier Peterson has mentioned that in his talks with Mr. Kelleher in Haliburton, there was a suggestion or, at least, one survey that the federal government has, that would indicate seven per cent of Canada's work force would be displaced and as that sinks in .... Mr. Lane, you had a question?

MR. LANE: Thanks, Mr. Chairman.

Sir, on page 2 you headline Possible Gains/Losses Due to Free Trade and then, as you go through the rest of your brief, you more or less talk about freer trade and not free trade? There is some considerable difference. Then you wind up by your examination of the Algoma area, which is understandable, given its history of freer trade. In view of the fact we have a high percentage of unemployed people now, and in view of the fact of the Chairman's remarks a moment ago, what about being displaced from the work force, throughout the entire province. You recognise there would be a substantial loss?

DR. KADIYALA: I think at the end, even though I went back and forth with free trade and freer trade, at the end I stuck with freer trade or freer trade relations with the United States.

I'm not so sure that complete free trade would be beneficial for Canada. I think we have to have some sort of built-in mechanism, safeguards, including our sovereignty, other things like our marketing boards, the agricultural sector would be affected significantly, if that is not excluded from free trade; and similarly there are other sectors. I guess the Liquor Control Board is another one.

MR. MACKENZIE: The Autopact?

DR. KADIYALA: The Autopact is another one, and to some extent, they are closer to it. So, in a way, I am not completely for free trade. I think I would like to have freer trade.

MR. LANE: You haven't seen any way that we could absorb the problem in the short term, because we are adding insult to injury with having more people unemployed, and sure, it's fine to say we can retrain them, but retrain them for what and where, and the cost of retraining or Welfare or whatever, while they are retraining, we are talking about a big buck for quite a period of time. So when does the benefit start to flow is the question, I guess, and what I want to say.

MR. CALLAHAN: In the fullness of time ....

DR. KADIYALA: I think in the short term it is reasonable to assume that there is going to be higher unemployment, and I thought their estimate of six per cent of the labour force and Mr. Chairman just read seven per cent of the labour force, would be changing sectors. So that is seven per cent, and a percentage of that could be temporarily, structurally unemployed. The cost has to be covered by unemployment insurance funds, special funds, retraining funds, relocation funds.

MR. TAYLOR: That all depends on the phasing-in period as well?

DR. KADIYALA: That's right. It would depend on the phasing and again, if we have a ten-year period, the impact would be somewhat lower.

THE CHAIRMAN: Professor Kadiyala, we have talked about a ten-year period and I think the U.S.-Israeli agreement has a fifteen-year period?

DR. KADIYALA: What I would like to see is they should eliminate our tariff in three years and we should take ten years.

MR. LANE: So you agree, if we are to have free trade or freer trade, it would have to be integrated over a period of years?

DR. KADIYALA: That's right.

MR. LANE: Not something that we would sort of do in the short term?

DR. KADIYALA: That's right.

MR. LANE: Going over to page 7 where you talk about the effect on agriculture, which I realize is not particularly a big item in this part of the province, but the province of Ontario does produce a lot of agricultural products; and you seem to see the marketing boards as still having a place in the farm commodities. It seems to me, if we had a much larger market, that there were ten times as many people to market our products to, that the marketing boards as we know them today would not really have very much place for farm products, and supply and demand basically would set the price? Like the Milk Marketing Board, for instance, at this time controls the areas, the pick-up and the volume in these areas, and that would no longer be the case, if we were to open up to free trade with the U.S? How would you see marketing boards functioning under a freer trade system? I don't really see much function for them.

DR. KADIYALA: If I understand you correctly, you seem to be suggesting or implying under free trade we don't need marketing boards and the free market would determine the prices and farmers would be able to survive under free trade? That's what I think you are saying?

MR. LANE: The supply and demand sets the price, eh?

DR. KADIYALA: I'm not convinced that Ontario farmers would be able to compete with American farmers. Weather I think is one of the crucial variables in Northern Ontario and

Southern Ontario for that matter.

MEMBER OF THE COMMITTEE: At the present time they would be able to compete, because most of them are going bankrupt ...

MR. MACKENZIE: They have already made it clear to us that they couldn't compete, the vast majority, in a free trade situation, unless they were exempted.

MR. TAYLOR: While commodities are under supply management --

DR. KADIYALA: Right.

MR. TAYLOR: -- are not consistent or compatible with the concept of free trade.

Do you seriously think, when we start into talks in regard to freer trade, that the agricultural industry would be included; and I say that because of the vast differences in our agricultural industries and the government-supported programs in both countries. For example, the pig program in the United States, a colossal failure, as I understand it, and extremely expensive? We have supply management and we have different types of boards and policies and when you are into the area of agriculture, I think the American concerns would be equally as large as ours. I am just wondering if you have any reply or impression in regards to that particular industry as a candidate for a free trade agreement?

DR. KADIYALA: I'm still not convinced that Ontario, and Ontario farmers in particular, would be in favour of free

trade as far as agriculture is concerned and, in particular, I don't think they like to see the elimination of marketing boards. It is true that American farmers are in trouble, but on the other hand, Canadian farmers would be in bigger trouble if we didn't have marketing boards in Ontario. Maybe what we could do is, that is the next step after we start on freer trade, and maybe five years down the road we might be able to eliminate the marketing boards?

MR. SMITH: Maybe we should get more marketing boards in the United States?

THE CHAIRMAN: Mr. Morin-Strom.

MR. MORIN-STROM: First a minor point. On your first page you mention, you use the figure of seventy per cent of U.S. exports come to Canada. We have heard quite a number of presentations, and I think the figure we have heard many times in the presentations is twenty per cent. I think you might check your source for that figure, because I believe it is twenty per cent and it is two per cent of the GNP depends on Canada and not seven per cent. The U.S. is not nearly as dependent on Canada as we are on them.

DR. KADIYALA: I completely agree with you, they are not as dependent on Canada as we are on the United States and I will have to check.

MR. MORIN-STROM: It only makes sense it would be that way, too, because you have got twenty-five per cent of our

GNP involved with the States, and that corresponds with something between, say, two per cent and two and a half per cent, and of the same order of magnitude, going both ways.

DR.KADIYALA: Yes. I think so. I will check into that.

MR.MORIN-STROM: On this whole arrangement, we have heard from numerous industries over and over again, the places where we are going to lose jobs, and we are heavily into the industrial sector and secondary manufacturing, more so than the resource industries. We have heard figures about a million jobs will be lost, and six per cent or seven per cent of our work force, probably, something approaching that, and we have heard of very few industries where we are going to see significant job gains. Where are we going to find three-quarters of a million jobs, where, and what industries, are those job gains going to come from? What sector?

DR. KADIYALA: The energy sector, I think, would be one that would gain. Oil and gas.

MR. MORIN-STROM: What types of jobs in oil and gas?

DR. KADIYALA: We would be able to trade more with the United States and control production.

MR.MORIN-STROM: Jobs in crude oil as opposed to refining and that sort of thing?

DR. KADIYALA: Yes, some jobs there.

If we eliminated trade barriers on the steel industry completely, we might be able to gain some.

MR.MORIN-STROM: Some?

DR. KADIYALA: Well, five hundred or -- something, maybe? I don't know? What are we talking about? Yes ... I have to look into the other sectors, for the gain, where it might be coming from.

MR.MORIN-STROM: How vulnerable do you think we are in branch plants? Fifty per cent of our manufacturing efforts in Ontario, are subsidiaries of U.S. companies.

DR. KADIYALA: That is one of the dangers, I think. There is a danger, if the market declines, it is possible that they could close the foreign branches, which could be Ontario's branches. But at the same time, again, that is one of the things that we have to negotiate for, some sort of safeguard, some sort of guarantees that they would not close "our branch in Canada." So, if we don't have any safeguards, it is very hard to avoid that problem.

MR.MORIN-STROM: But that doesn't sound like free trade, if the companies are not allowed to rationalize their facilities and concentrate their production in the largest plants?

MR. TAYLOR: The exchange rate might be a factor too?

DR. KADIYALA: The exchange rate would be a factor and it would be, they were saying, a larger factor than the tariff barriers themselves.

It is not clear to me if -- one way of looking at that actually is Canadian branches .... if we take a survey of the American branches, Canadian branches are larger than the American branches. So that means if we look at an average American plant and see when they have a second plant, I think Canadian plants are larger than the American plants.

MR.MORIN-STROM: I don't know. Most of the presentations we have heard have indicated the opposite, in terms of secondary manufacturing in Southern Ontario. White goods? The brewery industry?

THE CHAIRMAN: I think we have heard a lot of submissions, they would be larger?

DR.KADIYALA: It depends on how they interpret branch plant economy? I think one way of looking at that is let's look at our branches here and look at their size, and look at the American plants who have two or more branches, look at their largest branch and compare that with our branch here. I think if you look at it that way, according to some Economic Council studies, our branches are larger than the U.S. branches.

MR. MORIN-STROM: Probably the most significant presentation we had on branch plants is the one from a trucking company who is involved with the distribution of products in Southern Ontario and he said that he had spoken to on the order of a thousand small firms in Southern Ontario involved in better, basically, branch plants of American firms, involved in distributing

products to Southern Ontario and his impression of branch plants in Southern Ontario was that possibly at least one thousand different firms, that he is talking about -- and he is a very small branch plant, that they are trucking his product for, is that most of them are waiting for free trade, to close their Canadian operations, so that they can start beating Southern Ontario from the U.S.

MR.TAYLOR: Another point being made, I think, Mr. Chairman, with respect, at least as I understand it, was the point that the American branch plant in Canada is usually larger than the branch plant of the American company in the U.S. Is that what you are saying?

DR. KADIYALA: Yes.

MR. TAYLOR: And I have never seen a study come before the committee on that point. On that issue.

THE CHAIRMAN: Wasn't that what you were suggesting --?

DR. KADIYALA: Yes, I could provide you with --

MR. TAYLOR: That would be very helpful.

THE CHAIRMAN: We would appreciate that.

Mr. Mackenzie.

MR.MACKENZIE: There is an element of unreality to the whole thing going on right now, in terms of this need and the mood of the Premier today, or the Prime Minister, to initiate free trade talks. We have all kinds of evidence before us, that there will be at least substantial dislocation and adjustment

You know, all of the caveats that are put there .... and so here we have the U.S. Congress, some of the toughest -- whether it is totally real or not -- some of the toughest protectionist legislation and protectionist sentiment -- and that was made clear to us in Washington -- that we have seen in a good many years. They are angry because of their deficit and loss of jobs for their people, and if we are going to take this opportunity to sit down with them and think that we are going to be able to carry out all these exemptions? I don't think the Americans are fools and I don't think they are anything but very, very good negotiators. I don't downplay our people either, but I really wonder ....

And then take a look at another thing, the question raised earlier about the UIC and the big issue raised by the New England Governors, was that this is an unfair subsidy, the UIC payments that the Maritime fishermen get. Because they literally can fish all year round.

We are sitting down to negotiations and already the real irritants were -- FIRA, we have given it up. We have given up the national energy policy, we have given up cruise missile testing, and my God, what kind of negotiators are we, we have given up half of our trump cards, before we even sit down to the first set of negotiations, and we are now going to say, before we start, you have got to carve out the Autopact? We have got to carve out our social security system? We have got to carve out

the agricultural sector?

I don't mean to sound quite as emotional as I am, but I really wonder if there is any reality to what we are talking about at this point in time?

DR.KADIYALA: To some extent I agree with you. I think a couple of our trump cards were given away. FIRA ....

MR.MACKENZIE: A couple of major ones. We could have used FIRA and we could have used the energy policy and used cruise missile testing. Not that I want to, but they are all gone before we ever start.

DR. KADIYALA: I don't know whether this is logical thinking, but now that happened, another way of looking at it is maybe that is one way of bringing the Americans closer to the bargaining table?

MR.MACKENZIE: I have to tell you, as a negotiator, I don't like negotiating when I'm afraid as hell of what they are going to do, when I have already given away half of my trump cards.

DR. KADIYALA: I agree with you on that, I think they should have been part of the overall package.

MR.MACKENZIE: We are really negotiating out of fear of what they might do to us.

DR. KADIYALA: And something about, if we go back to we are losing one million jobs and what to do with them? I think at some point we have to look at our long term goals.

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DR. KADIYALA: And something about, if we go back to we are losing one million jobs and what to do with them? I think at some point we have to look at our long term goals.

MR. MACKENZIE: I think now you are starting, as we say, to cook with gas. What we don't have in Ontario and in this country is a real industrial policy. We don't know what we want to do in the way of value added, we don't know whether it is possible to take some of our natural resources -- which is where our surplus is, which we ship out, and we have to take a look at those, where we have got the expertise, and maybe start doing a little more value-added production here, and any number of approaches that we could be taking.

Content legislation, which is really what the Autopact is all about, it is not a free trade deal, it is a managed trade deal, that gave us a break in latter years, in terms of the Autopact.

DR. KADIYALA: So, you are talking about industrial strategy?

MR. MACKENZIE: If we had it, maybe we could start seeing how we could start looking for jobs for people. That's not just my idea. That has come to us very strongly with a number of witnesses too. We simply don't have an industrial strategy in this country.

DR. KADIYALA: Or to put it in a different way, I think we need some long range goals that will secure the future of Canadians, Ontarians and everybody in Canada.

MR. MACKENZIE: That to me is maybe a tougher but much more serious approach than sitting down, given the current

climate and certain pressures we are facing, and entering into comprehensive talks, which I think is nuts.

DR. KADIYALA: Well, presumably the --

MR. MACKENZIE: Maybe we need a commission such as we have in the Great Lakes waters to deal with the individual irritants in our trade situation, and that might be one approach with some real validity to it. Some kind of trade commission to deal with individual irritants? Because the other thing we are going to do, if we open up the talks now, is highlight every single irritant there is, and there are a lot of them, even between Canada and the U.S.: hogs, stumpage, UIC payments to fishermen in the Maritimes.

The argument my friend, Mr. McGuigan, would give us if he were here, that we are getting nailed for our hog marketing practices and yet they don't talk about the fact that while they have no similar subsidy there, they do have a subsidy on grain that is substantial, the corn subsidy, which allows them to feed hogs much cheaper.

I think we have got cards to play in the individual areas, but I'm not sure that now is the time, and the climate, to open the whole thing up, on a broad basis. Because then you have asked for too many trade-offs.

THE CHAIRMAN: On that note, if I may, Dr. Kadiyala, I'm going to bring this session to a close. I appreciate your submission, we all appreciate your submission and probably -- it

happened in the middle of this submission, we have seen some events occur, prior to our initial report coming out, and that's why perhaps some of the questions have been with a lot of emphasis at this stage. I hope that's not taken personally at all.

DR. KADIYALA: No, no.

MR. MACKENZIE: I trust the presenter hasn't taken anything I said personally.

DR. KADIYALA: Oh, no, no.

THE CHAIRMAN: We appreciate what you have said and it has been of great value to us. Thank you very much, Dr. Kadiyala.

DR. KADIYALA: Thank you.

THE CHAIRMAN: Our last submission today is from the Algoma Central Railway. We have with us Stanley Black, Vice-President and Division Manager, Rail. Mr. Black's submission is being distributed right now, and Mr. Black, would you care to lead us through your submission?

Oh, I'm sorry, if we could take a few minutes break.

--- Short Recess

THE CHAIRMAN: It has been brought to my attention that there are some people here today who may wish to address the committee. I realize the committee has worked hard all day today, but it is also the case that this is our one sojourn into this part of the province, so if the committee has no strong

objections, and our flight is not scheduled to leave until 8:30 tonight, so after this presentation, we will entertain some short presentations from others, if they wish.

MR.TAYLOR: Mr. Chairman, it is a public meeting and we are eliciting input from the general public, that's why we are here. I don't think anybody has any objection.

THE CHAIRMAN: No.

Mr. Black, thank you for being patient and waiting for us. For the first time, we are falling a little behind, today. So I wonder if you could lead us through your presentation and then entertain questions from the committee members.

MR.BLACK: Thank you.

Mr. Chairman, Committee Members, Ladies and Gentlemen, I should first like to explain that our president was moved to be here and speak with your committee on behalf of our company, but unfortunately he had an obligation in Toronto, where you came from, and he has to be there. So he asked that I would meet with you, primarily because my responsibilities include our freight trains, our passenger trains, our forestry, mining, dock and industrial lands here in Sault Ste. Marie and north to Hearst, Ontario.

Really, we are a service company providing transportation and housing for a variety of businesses that are more directly involved with trade; and as such, it was our original intent that we would leave representations to you, with the companies who are more directly involved in the trade question.

We are here because of your specific invitation and because we understand you would like to know a little bit more how free trade affects the Algoma Central Railway, particularly our rail operations, and I should be able to deal with that.

I would like to tell you a little bit about our company, particularly about the railway, and then share a few remarks about how we view trade with the United States affecting us.

Our company was incorporated in 1899 primarily as a wilderness railroad to transport iron ore and forest products out of Northern Ontario. We continue to do that.

But in recent years, Algoma Central has become a diversified transportation company moving cargo by water, rail and road. We operate a fleet of fourteen dry bulk cargo vessels, principally on the Great Lakes and the St. Lawrence Seaway. Our main railway line runs 295 miles north of Sault Ste. Marie and serves the natural resource, manufacturing and tourist industries of the Algoma region.

Our fleet of trucks carry general cargo extending from Detroit, Michigan and Buffalo, New York to Toronto, Ontario and Montreal, Quebec. Algoma Central has also developed commercial real estate complexes in Sault Ste. Marie and Elliot Lake, Ontario. In addition, the company owns approximately 850,000 acres of land including mineral and timber rights in the Algoma region. We are a privately held company traded on the Toronto Stock Exchange.

In 1984, Algoma Central Railway employed over two thousand people with approximately seven hundred of these in north-eastern Ontario. In 1984, Marine accounted for approximately fifty-two per cent of revenues, Trucking twenty-seven per cent and Rail seventeen per cent.

Rail Operations. Freight. Freight trains operate between Sault Ste. Marie and Hearst, Ontario as well as on our twenty-six mile rail branch line from Hawk Junction to Wawa and Michipicoten Harbour. We move freight between points on our line but we also connect with the Soo line via the CPR international bridge, Sault Ste. Marie; the CP Rail at Sault Ste. Marie and Franz; and we connect with CN Rail at Oba and Hearst. We own and operate the commercial dock at Michipicoten Harbour.

In 1984, we handled 3,150,000 net tons of freight made up of fifty-seven per cent mining commodities, thirty-three per cent manufacturing products and ten per cent forestry. This volume is substantially lower than the 3.7 to 4.0 million ton levels handled prior to 1982.

The passenger side. The Algoma Central Railway operates two passenger trains, our regular train and the Agawa Canyon Tour Train. The Canadian Transport Commission has declared the regular train a remote service and has ordered that we not discontinue it. While there has been no formal ruling we are advised that our Tour Train does not constitute a passenger train service under The Railway Act, therefore, it is operated at the

discretion of the company.

Our regular passenger trains operate on seasonal schedules between the Sault and Hearst on a six-day-per-week basis from late May through mid-October and on a three-day-per-week basis for the balance of the year. Regular trains move passengers, baggage and express. Tour of the line, snow train and seasons between tours operate in conjunction with our regular service. When overflow situations occur on our Agawa Canyon Tour, the excess numbers are handled on the regular service, such as is currently the case.

Our Agawa Canyon Tour operates daily from early June through mid-October. Since actively promoting the Agawa Canyon Tour to U.S. and domestic markets in the early '70s, we have maintained high passenger levels and over the thirteen years since 1972 have averaged 94,000 per year.

Patrons from the U.S.A. accounted for seventy-three per cent of our 1984 Canyon Tour passengers and ninety-three per cent of 1985 Snow Train travellers.

Passenger revenues accounted for seventeen per cent of rail revenues in 1984 with 7.3 per cent coming from the subsidy on our regular train, 7.2 per cent from the Agawa Canyon Tour and 2.1 per cent from the regular train. With 28,900 passengers on the regular train it suffered a loss of approximately \$3,163,000. The Agawa Canyon Tour carried 98,900 passengers to earn \$40,136 or just better than break even.

Although we estimate that passenger train operations contribute about \$37,500,000 annually to the economy of the area, it should be clear that there is no justification for the company investing over \$40,000,000 in the replacement of the obsolete equipment. Equipment which has become obsolete.

United States Trade, here I should explain I am speaking more about protectionist legislation and where we are now, rather than the question of free trade I have heard you speak about earlier.

With respect to trade influences on our business, I am not going to deal with the marine, trucking or real estate aspects of the company today. You have already heard from the Ontario Trucking Association which we believe has covered our concerns in that area adequately. As long as the United States dollar remains at a premium above the Canadian dollar, we believe that we can be competitive in North American shipping. We do not see shopping centres, office complexes, hotels or housing ventures being directly impacted by the question of U.S. trade unless it extends to the retail trade.

In the rail area, I have already spoken about passenger business at length, so I will not refer to it again.

Rail freight which accounts for eighty per cent of Rail Division revenue, is the area that would be impacted most.

We move mining tonnage, which is essentially iron ore, limestone and coke for Algoma Steel. This classification accounted

for fifty-seven per cent of our 1984 volume and we are told that twenty-five per cent of it is dependent on trade with the United States. I think you heard that earlier today.

In 1984, the manufactured products that we moved were primarily finished steel from Algoma Steel, woodpulp from Kimberley-Clark, paper products from Spruce Falls Power and Paper Company and a variety of other ore fines, concentrates, petroleum products, scrap and other materials. Virtually all of the woodpulp and paper products which account for thirty-seven per cent of this category are destined to the United States.

Forest products include pulpwood and pulpwood chips for St. Mary's Paper, Consolidated Paper, Kimberley-Clark and other operators; logs from Sault Ste. Marie, Searchmont, Hearst, White River and other points as well as lumber from G.W. Martin, Dubreuil Brothers, Levesque Lumber, Lecours Lumber and other operators. The majority of the pulpwood and chips goes to the United States in either its raw form or as finished paper or woodpulp. Logs become lumber or veneer or possibly chips, with a large proportion going to the United States and virtually all of the lumber that we move goes across the border. We estimate that as much as seventy per cent of this commodity group would depend on U.S. trade.

Overall, our perception is that about one-third of our freight business depends on trade with the United States. This translates into something between twenty-three per cent and twenty-seven per cent of our railway business or in the

status quo argument you make, in terms of what you have got now, protecting it, but in the event that we did end up in some kind of comprehensive free trade talks and agreement, can you see or can you give us any kind of numbers as to what your increased business might be?

MR.BLACK: That's really something that has to go with the customers that we serve. All I can really do is relate, with the remarks I just made, that when we had larger volumes, up to four million tons, we had larger employment.

MR.MACKENZIE: Would it have meant another thirty or forty employees, based on what you told us?

MR. BLACK: It would have meant more than one hundred employees. We are running right now, five hundred to five hundred and fifty and in those days we ran six hundred to seven hundred.

MR. MACKENZIE: So it would mean another one hundred jobs, if it were back to that level? .

MR. BLACK: That's right, and a large part of that was in steel and resource products that go into the making of steel and forestry products. Those are the two main areas.

There was some difference in manufactured products, around paper and woodpulp and that sort of thing.

So I would be surprised, if those markets weren't available, if there were not increased employment opportunities in those firms. But that is for them to say, though, not me.

order of 115 to 135 jobs.

It should be clear that we are very dependent on foreign trade. Since a railway experiences high costs to maintain a safe operation, we rely on adequate volumes to cover our basic costs so that we can remain competitive. The loss of traffic related to U.S. markets could result in the demise of this rail segment of our company.

Thank you for your attention. I will be pleased to respond to any questions that you may have.

THE CHAIRMAN: Thank you very much.

Mr. Mackenzie.

MR. MACKENZIE: The bottom line, I take it from your presentation, is that rail transportation and shipping end of it -- you have got about, 115 to 135 jobs? -- is dependent on being able to maintain what you now have in the U.S?

MR. BLACK: That's correct, Mr. Mackenzie. I can really relate a little bit more on that. When we were moving 3.7 to 4 million, we had an employment level that, depending on the season, went from six to seven hundred employees in the rail sector.

Now that we have lost the volumes I have indicated here, we are down in the five hundred to five hundred and fifty range; and if we lost what is there now, we would expect to reduce about that same volume.

MR. MACKENZIE: I understand this is essentially a

MR. MACKENZIE: So we could have another one hundred there, but there is nothing there at the moment that says given a bit of a turn-around in the market, and the continued advantage with the dollar, that those jobs might come back, even under the current system, if there were no additional protectionist measures?

MR. BLACK: We have not seen those markets available in Canada; those markets were U.S. markets, as we perceived them. So, yes, if something magical happens in Canada, they could come back but ....

MR. MACKENZIE: The only point I'm getting at is that is not necessarily lost because of any free trade or non-free trade, that you stand to lose another additional number of jobs, if we end up with the big problem of protectionism?

MR. BLACK: I don't know enough about protectionism in those areas to know how that has affected those businesses.

MR. MACKENZIE: It may not even apply?

MR. BLACK: It might not be involved at all, that's right.

THE CHAIRMAN: Mr. Lane.

MR. LANE: Thank you, Mr. Chairman.

On page 2, I note that you are talking about the amount of freight you move and I see it is down about a million tons from 1982 to 1984. Is that because of the recession and things were not moving as well or why were you down?

MR. BLACK: Partly because of the recession, I think that is a large part of it, and it is partly because some of the businesses that we serve found that they were not able to be competitive in the U.S. market and have gone out of business.

Certainly the lumber markets in the United States have shrunk and the Nuwago Forest Products operations that feed Ontario was completely closed, and with the loss of logs, wood chips and finished lumber to our operation.

Certainly the steel business has been affected and I don't know just how those proportions go because we don't handle their finished steel in the United States. We simply handle the raw product, for the most part. If they move into Canada, then anything that goes to Western Canada, we would certainly handle. But they have reduced their volume substantially. They moved in the order of two million tons of cinder products, which is a form of finishing iron ore, to put into the blast furnaces, and now they are moving more in the order of 1.3 million tons. So that is obviously a large part of that tonnage difference.

MR. LANE: A combination of reasons?

MR. BLACK: Yes.

MR. LANE: I notice at the bottom of page 3 you are saying it is clear that you are very dependent on foreign trade and it is important you have U.S. markets. What really are you saying to the committee? You would like the status quo to continue, to cover your business, or do you want fair trade

or what really are you saying to the committee, what are you really saying to us in that phrase there?

MR. BLACK: We are more concerned at this stage about protectionism and when we read and hear about all the things that are being said about preventing steel from going into the United States, preventing lumber and lumber products going into the United States, that would have a very significant impact on us, and that's really what these remarks are addressing, are the protectionist measures that are being put forward.

MR. LANE: In other words, you would be reasonably satisfied with the status quo, if things could remain as they are, you really have no great complaint with them?

MR. BLACK: No, we are not satisfied with the status quo, but we are not really in a position to address you and say if you did these things, what would happen with the volume of our business. I guess that really rests with the customers we serve.

MR. TAYLOR: A point of clarification if I may, Mr. Chairman.

What you are saying is that the success of your company depends on the success of your customers?

MR. BLACK: That's right.

MR. TAYLOR: Has your company made any study or analysis of your customers' business and how it might be impacted upon by changes in U.S. legislation, which might be of a

protectionist nature? Has your company followed that up? Has your company heard anything from your customers, expressing some concern in that regard?

MR.BLACK: We have spoken with our steel customer, with our wood products customer and with private products customers. They feel to a large extent they are dependent on U.S. trade. Some of them are having difficult times right now because of the competitive situation that they have and the recession that has affected both the United States and Canada. I'm not in a position to say what that trade off is between the recession question and the trade question.

MR. TAYLOR: But in those discussions there has been no concern expressed in terms of a protectionist mood in the United States, which might impact adversely?

MR.BLACK: Yes, they have. That's what I'm saying here, we are very concerned about protectionist measures. We are not in good shape as far as the rail business is concerned, right now, and if we lost this business, it could mean the whole existence of the rail division of our company.

MR. TAYLOR: So your company is concerned about protectionist measures, because your customers are concerned about protectionist measures?

MR. BLACK: Yes.

THE CHAIRMAN: What about the trucking section of your company? You say twenty-seven per cent? We have heard

from the industry generally. Do you have the same submission basically, on trucking?

MR.BLACK: We have not made a separate submission to you. We believe the Ontario Trucking Association has expressed our views in the submission they made to you.

THE CHAIRMAN: All right. Mr. Morin-Strom.

MR.MORIN-STROM: On the trucking, tying into trucking, you have made it clear that protectionism is the major concern, but a lot of the discussion focusses not on should we avoid protectionism, but we should go for a comprehensive freer trade agreement, opening up the border, across the border, presumably on virtually everything.

As a comprehensive agreement, I guess for your company, it sounds like you have got a combination where the rail business is very concerned about protectionism, but if we go by the submissions from the Ontario Trucking Association, as well as a separate submission done by CP Trucking at the same time, both have stated, if they were subjected to a free trade arrangement, the Ontario trucking industry would be virtually wiped out. Which seems to indicate your trucking position could be extremely vulnerable to takeover by the big U.S. trucking firms? How do you balance those considerations in terms of whether Canada should be going for a freer trade arrangement?

MR. BLACK: I'm just not equipped to speak to that question at the moment.

THE CHAIRMAN: One of their reasons had to do with deregulation.

MR.MORIN-STROM: As well as the geographical disadvantage.

THE CHAIRMAN: Yes.

MR.MORIN-STROM: It is so much easier for American firms to fill the southern Ontario market, than have to go in the other direction.

THE CHAIRMAN: Mr. Hennessy.

MR. HENNESSY: You mentioned, sir, you deal in the United States. What areas do you deal with? You said the United States.

MR.BLACK: As far as our rail operation is concerned?

MR.HENNESSY: Yes.

MR. BLACK: On our passenger side, we advertise and promote our operation into Wisconsin, Michigan, Ohio, New York, those are the main markets that come to Sault Ste. Marie.

On our freight side, we simply provide a connection with the Soo line railway here at Sault Ste. Marie, for any traffic that moves into the United States.

All of the traffic that we handle goes to the central United States, and that is very general, but it goes into Wisconsin, Michigan, Ohio ....

MR. HENNESSY: You don't transport it into --?

MR. BLACK: -- no, we interchange it to the Soo

line railway. We transfer it from whatever point it originates on our line. We might get it from Canadian Pacific Railway or Canadian National Railway or from one of our direct customers situated on our line.

MR. HENNESSY: What about trucking?

MR. BLACK: Well, all our trucking is in southwestern Ontario. So all of our trucking, again, depends on what originates on those lines.

MR. HENNESSY: You share the concern that my colleague had, in regard to the trucking industry? You are in the trucking industry and also in the railroad business?

MR. BLACK: That's correct.

MR. HENNESSY: You share the concerns on the other side, on the trucking side?

MR. BLACK: We have concern in the trucking side. I'm just not equipped to speak to that concern. My understanding is that the concerns we have were addressed in the brief that the Ontario Trucking Association put before you.

MR. HENNESSY: Thank you very much.

THE CHAIRMAN: Any other questions? Very well.

I would like to say, sir, I have been trying for over a year now to find a day or two for my wife and I to take your tour through the Canyon, and still trying to and still intend to do it.

MEMBER OF COMMITTEE: What about the money you're

saving?

MR. BLACK: Everyone can afford that ....

THE CHAIRMAN: In so doing, attempting to augment the Canadian content.

Thank you very, very much for your presentation.

MR. BLACK: Thank you, sir.

THE CHAIRMAN: I understand now we have an economist from Sudbury, who would like to address the committee. What is your name, sir?

A SPEAKER: My name is Brian Oja.

THE CHAIRMAN: Could you come up to the table, please, Mr. Oja.

MR. OJA: I came up from Sudbury with my friend Lasse.

I have nothing prepared. Just throughout the course of the discussions here I jotted down a few perhaps general considerations.

I suggest to the committee that we must look at the historical reasoning for the initial implementation of tariffs and their development over time and their justification today.

The practice of laissez-faire in this case implies that the concept of competition would be applied continentally. Essentially the question becomes can Canadian industry compete with American industry in light of American comparative advantage with regard to their entire existing infrastructure, economic,

political and social? If not, we would be reduced to hewers of wood and drawers of water once again.

If we could compete, would this not mean a necessary compliance with Americans' status quo regarding businesses and industrial practices or standards?

Government policy concerning the economy and consequently the environment, social programs and in fact the Canadian political identity, would by economic necessity attract American colours.

Several questions I had were: can we compete with the strong American dollar? Can we compete with their economies of scale that exist today, can we compete in fact with their entire existing infrastructure and essentially, are we able to do business with the United States, within the terms of laissez-faire, simultaneously assuring a Pareto optimum? That condition where no Canadian group is made worse off in order that another group is made better off.

The important issue is, what would free trade do to our standard of living? How will free trade and its social, political and economic implications affect other negotiations, in respect of the issues such as acid rain, cruise testing, Star Wars research, fishery regulations, et cetera?

As indicated, can the Canadian economy accommodate a higher unemployment rate in either the short or the long run? In the short run, through labour and perhaps technological changes

that would have to be made, and the long run, in our ability or inability to compete? Inability leading to attrification of certain Canadian industry.

Our system is based on free enterprise and if we would really like to test its strength, free trade is the route to go with the U.S.

In my opinion, however, the Canadian political system and its modifications, too, its economic system via tariffs, were implemented with both an economic and social conscience, not paralleled by our southern neighbours.

Those are just a few comments I jotted down. A general perspective.

THE CHAIRMAN: Thank you very much. We appreciate your doing that.

Mr. Callahan.

MR. CALLAHAN: That was one of my concerns, you raised a very interesting point: is this just the start of something bigger and better, in terms of maybe this is the way out, in terms of things like the cruise missile and other things like that?

If we rush into this process without really thinking it out and without dealing with it on a toe-to-toe basis, we may very well find this could be Act 1, Scene 2 of something larger?

THE CHAIRMAN: If we demand that they get rid of

their non-tariff barriers, presumably we can demand they shut down the defence industry? I mean, if we are going at it toe-to-toe ....

MR. LANE: I was in Washington last week on a Commonwealth Parliamentary Seminar, we had a lot of speakers, some of them actively involved in the government and some of them retired Congressmen. The one thing that disappointed me was the lack of interest in doing anything about acid rain, other than rhetoric. It seemed to me that the government is prepared to engage in a bit of rhetoric and the man on the street couldn't care less. It seems to me that we are light years away from anything happening that is going to protect our lakes and forests in central and eastern Ontario.

I wish somebody could tell me how we can deal with that problem, with our neighbours to the south, because by the time they get around to seeing it is a serious problem, it is going to be beyond repair, I think, in many areas in this province, and eastern Canada. Do you have any thoughts on that? You mentioned acid rain in your question and I just wondered if you had any --

MR. TAYLOR: Maybe there is free trade in those movements?

MR. OJA: Acid rain?

MR. MACKENZIE: The question was, could these things or would these things be on the table?

MR. CALLAHAN: That's right, and particularly when you look at the question of how you deal with that, and we are

getting into another discussion, but if you deal with the question of acid rain, acid rain, in order to have it eliminated or reduced, requires massive expenditures. Maybe I shouldn't say that in Sault Ste. Marie, but massive expenditures on the part of wherever that acid rain is coming from. Are you going to be able to put that on the table and say to the U.S., "We want you to impose that," and if they say, "No way," and we have to do it, are we in fact not reducing our ability to compete on a successful scale economically?

THE CHAIRMAN: Do you have any comment on that?

MR. OJA: No, sir.

THE CHAIRMAN: Mr. Hennessy.

MR.HENNESSY: I just have a question. Everybody has been discussing it, and I hear it, back and forth, different people come in .... you sat today in the audience and heard the Chairman read a statement -- whether it is political or not -- where he came out and said that if free trade does come out, it will be the loss of possibly one million jobs or seven per cent of the work force. You mentioned freer trade. Have you got any feelings on that, as an individual? We sort of get into a vacuum, being political, and sometimes you carry your flag, sometimes you don't. I would like to know what your opinion is, sitting in the audience, when you heard a statement of that nature?

MR. OJA: I would agree that freer trade would increase unemployment in the short run. I don't know whether

that cost can be justifiable at this time.

MR.HENNESSY: If we don't go for free trade, will unemployment increase or decrease? Would you have an idea?

MR. OJA: Well, I don't know whether it would increase or decrease, but it certainly wouldn't increase as dramatically as it would under the implementation of free trade.

MR. HENNESSY: And then in the long run --

MR. TAYLOR: Excuse me just a minute.

Assuming present conditions and no unilateral action on the part of the U.S., in terms of protectionism?

MR. OJA: Assuming that nothing changes?

MR. TAYLOR: Yes. Is that a safe assumption I guess is what I'm asking you?

MR.OJA: Assuming nothing changes right now, I propose that I did not have a prediction on whether unemployment would increase or decrease. However, if free trade was brought into effect, I feel that unemployment would definitely increase.

MR. TAYLOR: In the short term?

MR.OJA: In the short term period. If our ability to compete with the American labour force, the American infrastructure, as far as transportation systems go, American technology, if we could keep up, perhaps employment would increase in the long run. But in the short run, in my opinion, definitely there would be an increase in unemployment.

MR. HENNESSY: Just another question. Let's say,

on the other hand, we pull out and say we are not going for free trade and it is more or less a trade war, to some extent, would our employment increase or decrease or would the United States be too smart for us in the long run, would we win or lose in that kind of battle?

MR. OJA: I can't say.

THE CHAIRMAN: I have been advised, if you don't know, it is best to say nothing, but I think that maybe this seven per cent figure that is being thrown around, is the Harris and Cox study that we had reference to earlier. But I don't know for sure. I heard something earlier in the week about that and I believe that's what we are talking about.

Mr. Callahan.

MR. CALLAHAN: I gather what you are saying too, is that in the long run employment will increase, if we have free trade? Assuming that Canada is able to compete on all those levels you have indicated? You are an economist?

MR. OJA: Yes, sir.

MR. CALLAHAN: As an economist, surely, the rules of the game, in terms of taxation, in terms of availability of equity capital, as opposed to be socked in the banks, and all these other things, have to be looked at by our particular government and by Canadians as a whole, as to whether or not they are going to be able to compete in that respect, so that in the long run employment will increase?

MR. OJA: One question that comes to my mind is are we really opening up a market of 250 million people? Do we have the products? Do we have the capacity in our industrial system?

MR. CALLAHAN: In the entrepreneurship and the risk-taking and the --?

MR.OJA: Exactly.

MR. CALLAHAN: As I see it, it takes almost a total revamping of the entire way of thinking of Canadians, in how they invest their money and certainly we have the excellence we can pursue, as witnessed by the arm put in in the space program. There is no question we have brains and the ability. It is a question of getting Canadians to think in a different fashion.

MR. OJA: Perhaps we can only have that opportunity under some protection of tariffs, at this stage in the game?

MR.CALLAHAN: And also a step on the part of the federal government to revamp our entire tax system, to make it more in line with the position of the United States?

MR. OJA: So in my opinion, again, the ramifications of this question are widespread. This is a big issue now and in my mind, what it does is raise many other big, big issues. Perhaps at this stage it may be premature to consider carte blanche laissez-faire. I think a better idea might be to consider modifications to the existing system of tariffs and see where exactly are the problems.

MR. CALLAHAN: So the long and short of what you are saying is that the headlong rush into the immediate change -- or immediate discussions on this issue, without some considerable amount of investigation and preparation, are a mistake?

MR. OJA: I think it would be premature at this time. An analogy perhaps would be something like the Greyhounds playing Oilers for the Stanley Cup and I don't think our ability to compete is that finely tuned at this stage.

MR. TAYLOR: Again, if I may, Mr. Chairman, on that point, I think you should be more selective in your response, because when you generalize, I think maybe you are not too accurate. For instance, I think the wallcovering industry was competing very well and the U.S. can't compete with them; just waiting for the day to get into that market. What they are afraid of is that they are doing so well, they're getting a political response from the United States, which may put them out of business there.

You see, you have to take it industry by industry and see. I don't have an inferiority complex. I have a great deal of confidence in the business community of our province and country, to compete anywhere in the world, if they want to put their minds to it. I think we have a great deal of industry that in fact can compete. The steel industry is one, right here.

The alternative is to do what they are doing now, which is to spend, I guess literally millions of dollars in trying to combat protectionism legislation, which is coming out in the

United States. Our lumber industry is another example of that. You're running a crisis centre in order to try and maintain the status quo, which is a moving target all the time.

So that I put that to you in response to your general response because again, I think you have to be much more selective and when we hear from -- which is only natural -- people who may be damaged, and we don't hear as much from people who may do very well and are doing very well; and if they are going to do better, they don't want to tell anybody, it seems. I think you have to understand maybe some of the psychology of the business world.

MR. OJA: The wallpaper example was an interesting one. I think the centre of the target would be manufacturing, I think that's where the value added comes in. We have to shake our heads a little bit and get away from perhaps lumber and perhaps mining and natural resource industries. We have to be careful that those, let's say, aren't -- if I can use the word -- raped from our economy. Manufacturing seems to be where it is at, especially competition-wise.

MR. TAYLOR: Polysar was another example. Really, a brilliant organization and very high on technology, selling their technology as well as their products and so on, right around the world, and they're not afraid to enter into a world marketplace. There are, of course, other industries as well, but again I give

you some examples.

I didn't react and I won't react to your use of the term laissez-faire. I don't want to get into a philosophical debate on that one, but I think it had a meaning, at one time, that maybe is not as relevant in our modern economic system, and free enterprise, I think you even question, I see the psychological inverted commas around the words "free enterprise."

MR. CALLAHAN: I think in fairness, the witness was responding to something I said. Until you change the tax system and change the approach of Canadians to investment and risk capital, and so on .... I think that is what he was responding to, that it was like the Greyhounds playing the Oilers.

MR. MACKENZIE: Jim used the example of Polysar and what Jim also could say is that while they thought they could gain a few additional jobs, they also made it clear in the presentation it was \$600,000 plus for every job they created. Now, \$600,000 per job, to expand that particular industry or give it that advantage, as a result of free trade, would have to be weighed against what we might do in value-added areas in other industries.

MR. TAYLOR: Well, isn't it --

MR. MACKENZIE: -- it isn't labour-intensive, so what you are getting there is very little for one helluva lot of money.

MR. TAYLOR: Again, they are capital-intensive, but

they are very big in research and development, which is something that we have to do, and they are prepared to put money into it, which I think is -- and I'm looking at the history of the company -- probably the reason for their success.

Another success story is Northern Telecom. I feel tremendously confident about the business acumen and the skill of our business community and I do not apologise to anyone for that, and I do not feel like a second rate business person. But that is just my view.

THE CHAIRMAN: Mr. Smith has something?

MR. SMITH: Yes. This may be coming at it from a different angle, but I'm going to ask you a question and let you think about it, maybe.

You don't think this is a diversionary -- I don't know -- plan? Because there is a theory that in a capitalistic society of fifty, fifty-five years, you have to go through a washout, anyway? Have you ever thought that this might be a diversionary smokescreen. We are going to go through tough times anyway and we have to have something to discuss. Did it ever cross your mind that that is what might be going on? That is just another angle, Mr. Chairman. I could tell you the name of the theory, but I don't know whether ....

THE CHAIRMAN: Did it ever cross your mind?

MR.OJA: No, it didn't cross my mind.

MR.SMITH: It is the Kondratieff theory, anyway.

THE CHAIRMAN: What's the name of the theory?

MR.SMITH: The Kondratieff theory.

THE CHAIRMAN: Any other questions? Thank you, Mr. Oja, and thank you for making the trip down here.

We have appreciated all the presentations, they were all high quality presentations, and as I indicated this morning, hopefully, after we do our interim report, we will be back for more intensive discussions with you; and obviously they are going to have to be current to what is going on in the world.

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Rosemary Hale  
 Rosemary Hale,  
 Chartered Shorthand Reporter.





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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, SEPTEMBER 30, 1985

Morning sitting



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Barrows, D. J., Director, Planning and Priorities Secretariat  
MacDonnell, G., Deputy Minister  
Wallace, P., Executive Assistant to the Deputy Minister

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, September 30, 1985

The committee met at 10:13 a.m. in committee room 1.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: I think we can get started. I hope you have all had a good weekend, I have just spent three and a half hours getting here. Via Rail got me as far as Brampton and gave up, so I will go back to cars.

Mr. Taylor: That is good for the record, Mr. Chairman. The transcript goes to the Via Rail people.

Mr. Chairman: This morning the members of the committee who have been with us right from the beginning will recall that our very first witness back in mid-July was the Deputy Minister of Industry, Trade and Technology, Mr. George MacDonell. At that time he gave us an overview and a brief on some of the problems, the trade situation as Canada was placed in the world and as Ontario was placed in the world and, in particular, Ontario figures.

We asked him a number of questions concerning the interprovincial trade situation and the General Agreement on Tariffs and Trade. A number of our questions at that time were based on less knowledge than we have today, Mr. MacDonell, but we are still very grateful that you have agreed to come back and be specific in some of those areas. In fact, the ministry has continued to work in those areas over the course of the last two and a half months. Mr. MacDonell, if you would like to take over.

MINISTRY OF INDUSTRY, TRADE AND TECHNOLOGY

Mr. MacDonell: Mr. Chairman, ladies and gentlemen, with your permission I would like to ask Mr. David Barrows, director of policies and priorities for the Ministry of Industry, Trade and Technology to give you a presentation we have prepared on the relationship between the United States and Canada and the trade that exists between us. I think it will lead to a series of questions as the implications of some of these--

Mr. Chairman: There is a problem with your voice, Mr. MacDonnell. I wonder whether you could sit down.

Mr. MacDonell: I will sit down, Mr. Chairman. If it is agreeable with you, I will ask Mr. Barrows to go ahead with his presentation.

Mr. Barrows: Is it best if I sit down?

Mr. Chairman: Yes, it is.

Mr. MacDonell: Would you like the lights dimmed, Mr. Chairman?

Mr. Chairman: Yes, please.

Mr. Barrows: We have done an overhead presentation I would like to take you through that tries to address some of the questions raised when the deputy minister appeared before you a couple of months ago. I have my colleague, John Brady, manager of the trade policy section with the ministry, to answer questions you might have as we go along or when the presentation is completed.

We are entitling this presentation Canada-United States Free Trade: An Ontario Perspective because of the critical importance of the nature of our relationship and the recent statement by the Prime Minister.

The first section we will look at is the importance for Ontario of a potential bilateral trade agreement between Canada and the United States. When we look at the data, we find that Ontario accounts for by far the largest proportion of Canada's manufacturing employment. In 1984, about 49 per cent of Canada's employment in manufacturing was located in the province. That accounted for more than 51 per cent of total manufacturing sales.

Whatever happens in a bilateral agreement will be particularly important for this province, especially in terms of the manufacturing sector. When we look at the impact in terms of output, total employment and manufacturing employment, we see the great importance of manufacturing exports for Ontario. That accounts for about 40 per cent of gross provincial product and 25 per cent of provincial employment, or about one million jobs and almost half the jobs in the manufacturing sector.

Mr. Taylor: That is 40 per cent.

Mr. Barrows: It is 40 per cent of the provincial product.

Mr. Taylor: Is that about 30 per cent federally? I am trying to get these figures straight. As you know, we ran into them in our sojourn last week. I want to clarify the percentage of gross national product and the percentage of gross provincial product. I was verifying whether it was about 30 per cent GNP and 40 per cent GPP exported. Could you clarify that for the record?

Mr. Barrows: I believe it is 40 per cent provincially and the federal figure is about 30 per cent. An examination of Ontario's export markets--

Mr. McFadden: Go back to the previous slide, please.

Mr. Taylor: Incidentally, there was some confusion on the other point; at least I missed some information. What is the figure for the US as a percentage of its gross national product?

Mr. MacDonell: It is approximately 10 per cent.

Mr. Taylor: That was my understanding as well. I was given a figure of 20 per cent at the hearings in Sault Ste. Marie. I remember I volunteered the 10 per cent figure and somebody came back with 20 per cent, which pointed out the importance of trade to us compared to their gross national product.

Mr. MacDonell: Traditionally, it has been 10 per cent. Because of the high value of their dollar, it probably declined in 1984-85 to something like nine per cent.

10:20 a.m.

Mr. Chairman: I wonder whether Mr. Taylor and Mr. McFadden could join Mr. Brandt over here.

Mr. Brandt: Is that necessary?

Mr. Taylor: From our point of view we are hoping not.

Mr. Brandt: My sentiments exactly.

Mr. Chairman: Mr. McFadden, do you have a question?

Mr. McFadden: I have a query on the next slide. Are you saying under "other" that no other has one per cent, or are you just highlighting our major areas? In other words, the five per cent "other" is a whole bunch of small sales in different places. Is that right?

Mr. MacDonell: Yes, that is correct.

Mr. Brandt: None of that equals one per cent.

Mr. MacDonell: No.

Mr. Barrows: In terms of US exports to Canada, you can see that, by and large, they come through Ontario. This is based on province-of-clearance status, so not all that 73 per cent stays within Ontario. Some of it is trans-shipped to the other provinces. That fact notwithstanding, the bulk of imports into this country is made up by the province of Ontario from the US.

Mr. Brandt: Are there any scientific data to break down that figure further to indicate trans-shipments out of Ontario to the other nine provinces?

Mr. Barrows: No, we have not been able to do that.

Mr. Brandt: I know it would be very difficult to do that, but this question came up in Kitchener and the chairman will recall that I pursued it. That particular figure creates an illusion. It looks as if we are doing far more trade with the US than we really are, but because partial manufacturing or value added takes place in Ontario, those shipments come here, the value is added, the product is more fully manufactured or completed in its manufacturing process and then it may be shipped to another part of Canada.

That scenario would be far more common through Ontario than through any other province, and there was some dispute about that. At least I made that point in Kitchener, and I believe the comment was made, "There are other products that go to other provinces and are shipped back into Ontario." I do not dispute that, but I would say they are probably relatively small in number. A fairly healthy percentage of that 73 per cent would be trans-shipped back out of the province for interprovincial trade.

Mr. Barrows: If you look at the data on subsidiaries, the majority of them reside in Ontario, so it is probably fair to say they would be shipping the product to Ontario for subsequent fabrication and then shipment out. That proposition is probably correct.

In the next section we are looking at a historical overview to try to understand the nature of the trading relationship and the options available to us. If we look at the volume of trade between the two jurisdictions, we see that since the 1970s the volume of trade has taken off very substantially. In recent years, particularly with the decline in the value of the Canadian dollar, we find Canada experiencing a healthy surplus with the United States of about \$16.6 billion in 1984.

As we said before in your committee, this does not necessarily translate into very many direct jobs, in the sense that a lot of our exports are raw materials in a very unfinished state. That fact notwithstanding, we have one of the major balance of payments surpluses with the United States at this time.

Mr. Taylor: Does that take into consideration (inaudible)?

Mr. Barrows: As well as they can be captured in those numbers, yes.

Mr. Taylor: So we are talking net here.

Mr. Barrows: Yes.

Mr. Taylor: It is something (inaudible) even out a little bit more when you take into account other items, such as services, financial institutions, interest payments, loans, anything like that.

Mr. Chairman: It might even be a negative figure.

Interjection: But that is not the case.

Mr. Barrows: These are the goods and services as defined in the two-way trading relationship. But you do get into royalty and dividend payments, which would not be captured in those numbers in terms of the net flow of moneys back and forth.

Mr. Brandt: That is a net flow out of Ontario.

Mr. Barrows: Of course.

Mr. Chairman: The figure some Americans were throwing around is \$20 billion but they may not be taking some of those things into consideration.

Mr. Cordiano: Do you have figures relating to what foreign subsidiaries are doing in terms of exporting to the US, for example, American subsidiaries? Do we have data relating to the total amount of exports that are going to the United States from these subsidiaries?

Mr. Barrows: We have a subsequent chart that will give you some indication of what we call managed trade. That is the trade between subsidiaries, which is quite high, particularly when you take into account the automotive trade agreement. We do not have specific data. You have to do a special study on that.

We have done an analysis of 600 subsidiaries in Ontario and we find that more than 60 per cent of them do not have an export mandate at all, to the United States or to any other jurisdiction. You tend to find that US subsidiaries in particular, by and large, have no export mandate. They are primarily here to service the Canadian market.

Mr. Cordiano: As a percentage of our gross provincial product what do the subsidiaries account for with respect to that total percentage of output?

Mr. Barrows: It is 49 per cent of manufactured output.

Mr. Knight: This is an interesting slide in that it looks as if we have cracked--from the beginning of your slide in the 1950s right through to 1980 exports and imports have an equal balance, but in 1980 that spread seems to have started. Can you identify anything specifically as far as trade or industrial activity is concerned to account for that? Could it be in large part or solely because of the currency valuations?

Mr. Barrows: There are two things. One is the currency divergence. We had a substantial devaluation. The other thing is the US did not have anywhere near the recession we did in the 1980s. So you see, for example, the inputs falling off dramatically. That is a function of the severe decline we had in industrial production. We stopped buying machine tools, we stopped buying computers, we stopped buying a lot of things that we tend to import from the United States.

At the same time, with the Reagan tax cuts in the early 1980s, as the US economy took off and that country started to import more from us, you begin to see that divergence between exports and imports. It is a combination of the two things, the depth of our recession while their economy took off quicker and the fact that we had devaluation of our currency.

Mr. Knight: To what extent could you see that divergence in the export-import balance come back with the efforts the US appears now to be engaged in to bring down its dollar?

Mr. Barrows: In some of the work we have seen the value

of the Canadian currency is very important for our export capacity. If we were to see a closing of that gap, we anticipate that the gap between exports and imports would close.

As well, as George whispered to me just now, a good deal of that is in the automotive sector where, quite frankly, with a whole series of fortunate events, such as us producing big cars, there was a significant demand for automobiles produced in Ontario and Canada. The automotive industry is a cyclical industry and is likely to go through another major cycle which will affect that. The auto industry is also going through some very significant structural changes as an industry and we are not sure we will be able to maintain that level of export performance.

There are a number of factors that would tend to bring those two lines together over time.

Mr. Knight: Half, perhaps, as far as currency valuation is concerned? Do you have a feel for what impact that would have?

Mr. Barrows: It is hard to disaggregate and say one is more important than the other but I think you will see, between the automotive sector and the change in currency valuation, the thing closing up.

10:30 a.m.

Mr. Brandt: A good part of the line that is now separating it is due to the auto pact. Could you identify some other industries that are winning at the moment as a result of the lower value of our currency or whatever factors enter into that? Although the auto pact may be the central factor driving the export line up so high as rapidly as it is, do we have other winners you could identify that we have been on a roll with?

Mr. Barrows: Yes. Our trade has gone up by about 28 per cent with the United States in the last year. We have had a significant increase in import penetration into their market. There are a number of sectors. I do not have the data in front of me. They include telecommunications, office equipment, aircraft and some plastics. We could provide the specific commodities for you.

Mr. MacDonell: I can help you there. As David said, we have been growing in things such as telecommunications, scientific and professional equipment, office and store machinery--that is, computerized, high-technology stuff--pharmaceuticals and medicines. Aircraft have done extremely well. On a much smaller scale, consumer products have done well too, all sorts of things which have been affected by the rising standard of living in the United States with a booming economy and some of the expertise we have in things such as pleasure boats. The big numbers are firms such as Northern Telecom.

Mr. Brandt: Looking at it from the American perspective for a moment, normally when there is an aggravation with respect to bilateral trade, it occurs in sectors where the other guy has

an advantage or is beating up your market. Then your domestic manufacturer indicates there is an unfair situation developing as it relates to telecommunications or aircraft, and he will go right down the list. You are obviously penetrating that market.

I raise the question because, if there were an increase in protectionist policy on the part of the United States, I was listening very carefully to see if you would mention transportation equipment. One of the sectors hit hard with preferential buying policies in the United States at the moment is the transportation sector. Buses are an example, subway cars, the kinds of things we produce and manufacture very well in this province. If there are going to be problems with access to the United States market, it will be in some of the areas where we now have an advantage, perceived or otherwise, where we are able to penetrate their market very effectively.

Mr. MacDonell: We will present you with another chart dealing with your issue by showing you the export, import and deficit in trade in the three technology sectors, high, medium, and low. Hold that question until we get to the chart and then raise it again.

Mr. Chairman: May I ask a question for clarification? You indicated pleasure boats as an area which is benefiting now, particularly in the last few years.

Mr. MacDonell: Yes. I picked that to come down off the very heavy industrial. We have niches where we do very well. Pleasure boats is one in which we are doing well at the present time. The volume is small, but it is widespread, not just the major firms and technologies. Some of our growth is in interesting niches where we have expertise.

Mr. Chairman: That is not just displacing imports. That is exporting that is going on?

Mr. MacDonell: Yes. That is export.

Mr. Chairman: I understood some members of that industry were concerned they could suffer severely with the opening of the border.

Mr. MacDonell: Yes. They are primarily concerned with big motor cruisers. When I said pleasure boats, I should have said sailing pleasure boats, where we have some special techniques.

Mr. Barrows: Again, we are looking at Ontario trade with the United States. Historically, that has been in imbalance with imports exceeding the exports. Now that gap has closed. We are in balance primarily because of the significant increase in automotive exports.

Historically, the United States has been a very important market for Ontario and Canada. Since 1965 that relative importance has increased to the extent now that 90 per cent of Ontario's exports are sent to the United States; it is about 75 per cent for Canada. Our export proportion exceeds that for the country.

We would like to talk about the current situation and some of the factors involved. If we look at our value of two-way trade with the United States, Canada's value exceeds \$150 billion annually, and Ontario's value of two-way trade with the United States is close to \$100 billion. It is a very significant amount of money between the two jurisdictions.

Interestingly, when we look at the data, we find no two countries experiencing anywhere near the volume of trade as that between Canada and the United States and Ontario and the United States. According to the data, the trade between Ontario and the United States is almost as large as that between the United States and Japan. It is a very significant component for both jurisdictions and it is of a great deal of importance to both the United States and Canada.

If we look at major markets--this gets at some of the questions raised earlier--we find the United States market is much less dependent upon Canada than vice versa. If we look to the bottom, we will see that while the United States sends the majority of its exports to Canada, the United States has a much more diversified export market.

The Canadian market is much more dependent upon selling to the United States. If we look at the relative proportions of gross national product generated by exports, as we indicated earlier, the figure is much smaller for the United States. They are much less dependent upon their export capacity than Canada is. Canada is much more dependent upon exports and much more dependent on the US market.

Trying to get job data is always a very difficult thing to do, but it appears that in Ontario about one million direct jobs are generated by our trade with the United States and approximately 700,000 jobs for the rest of Canada. Some estimates from the Bureau of Labour Statistics in the United States would suggest that about two million jobs in the United States are dependent upon trade with Canada.

The figure is higher for the United States, even though their absolute volume is less because of the higher value-added component of what they sell to us. When the United States sells us products, it usually has a higher direct labour component because it is selling us finished products, such as computers and other kinds of things, whereas Canada, and to some extent Ontario, is exporting semi-finished and unfinished products.

To summarize, we have a much larger trading relationship. The trade between the two countries affects a wide range of industries in both nations. There is a significant impact upon employment, and there is a broad range of forces--geography, institutional relationships--which have affected the trade between Canada and Ontario and the United States today.

10:40 a.m.

We would like to look now at the trade barriers and impediments to trade as we see them. As you are no doubt aware as

a result of the other presentations, there have been significant tariff reductions, and those will continue to 1987 as a result of the last Tokyo round of the General Agreement on Tariffs and Trade, such that the percentage of duty-free trade of Canadian exports to the United States is about 80 per cent and US exports to Canada are about 65 per cent, completely duty-free in both directions.

That fact notwithstanding, there are still some American tariffs which are reasonably high in areas such as chemicals and telecommunications, but by and large tariffs do not appear to be the major issue now with respect to access to the US market. Regarding the question raised by the member a few minutes ago, in discussions with industry, the primary concern is that, if the exchange rate were to change dramatically, it would dwarf any change in tariff rates. Dropping tariffs from seven to four per cent for chemicals is really not the issue; it is one of exchange rates at this time.

Mr. Brandt indicated there are a number of nontariff barriers facing Ontario industries in America--the Surface Transportation Assistance Act, health and safety standards, defence sourcing, etc. One would not want to minimize the importance of these things, but I think it is significant to note that in the total volume of US-Canada trade, which exceeds \$150 billion, these are relatively minor irritants in comparison to the huge volumes going back and forth between both jurisdictions.

By and large, not an awful lot of our trade at this point is heavily affected by these nontariff barriers. That is not to minimize their importance to certain selected industries and not to say they are not important, but I think they should be taken within the total context of the volume of trade between the two jurisdictions.

Mr. Brandt: Have you been able even to begin to quantify that number? As an example, as I understand it and my numbers could be off a bit, something like 30 states have a buy-America program as it relates to transportation. That is more than half of the states. It effectively means you cannot sell a piece of equipment. No matter what the price, tariffs or dollar relationship are, you simply cannot sell into that market. The door is totally and completely closed. That being the situation, do we have any idea how much trade we are losing as a result of either preferential purchasing programs or any of the others you have on the list there? Is it billions of dollars? Would it be 10, 25, 30 per cent of our total export volume, or do we have any handle on that at all?

Mr. Barrows: We were looking at rough estimates of about one per cent of the volume of the two-way trade between the two jurisdictions. It is hard to measure what you have missed in that context.

Mr. Brandt: That is right, because these are all sales you do not have--

Mr. Barrows: Exactly.

Mr. Brandt: --or that you have not been able to make.

Mr. Barrows: Of course, you have had your own meetings with the industries, but Bombardier Inc. and the Urban Transportation Development Corp. have exhibited some capacity to penetrate the US market. Mind you, it has necessitated setting up facilities in the United States in order to get certain US content in their products. Presumably, it has diverted some investment from Canada to the United States. It is hard to know the volume you have lost. It appears to be a significant number but not enormous in comparison to the value of the two-way trade between the two jurisdictions.

Mr. Brandt: One of the reasons there has been some discussion about even entering negotiations with the United States is the increase in nontariff barriers.

Mr. Barrows: Yes.

Mr. Brandt: I am trying to get even just a basic, fundamental handle on what that number might be, because if it is as low as one per cent, then perhaps it is not as significant as some are making it out to be. If it starts to get up around 10 or 15 per cent, then we may well be getting into a crisis, particularly if it grows and continues to act as an impediment to access to the American market.

Mr. MacDonell: In fact, we have made a study of the major American acts that have been institutionalized to protect their market. I think the number was something like 152, of which eight affected Ontario, and today I think four of those are now in effect. When you add to that the fact that our exports to the United States, as David mentioned, rose by 28 per cent last year, and when you look at what is an estimate of one per cent of our exports being affected by the four barriers to us at the moment, it would seem that protectionism is something in the future rather than something that exists today. As David said, the relationship of these in the total volume of trade is a very small irritant.

Mr. Taylor: Excuse me. That is interesting. You have done an analysis then of all the bills that are in Congress?

Mr. MacDonell: We did not do an analysis of the bills themselves, but we counted the number. John, can you help me out with this? We went back since the last Tokyo round and looked at what has actually happened to Ontario by countervail and other institutionalized attempts at market protection of the United States. I think the only ones still in force, although we were affected by eight, are down to four.

Mr. Barrows: We were looking at a particular period in which 662 US petitions for import protection were filed. of these, 44 were related to imports from Canada; only eight of these resulted in US protectionist measures; and less than four per cent of these measures still apply today.

This is for a historical time period. We have not done an analysis of the 300 bills that are currently under review in Congress. Without question they could have a very significant impact on our exports.

Mr. Taylor: Again, as Mr. MacDonell said, that is the future.

Mr. Barrows: Yes.

Mr. Taylor: Here you are dealing not necessarily with bills or legislation.

Mr. MacDonell: With actual impediments.

Mr. Taylor: Yes.

Mr. MacDonell: Things that bear on us under US law today.

Mr. McFadden: This finding could also be quite consistent with what the lawyers in Washington told us about dealing with the American government. You may recall that they said there really was not much in the way of barriers to Canadians; they were basically treated the same way. One of the lawyers whom we met us gave us that information, and that seems to be consistent with exactly what you are saying: While there is a lot of talk about it, it does not seem to be a major barrier at this time.

Mr. Brandt: It keeps getting vetoed at the President's office; that is one of the reasons. He will not allow a lot of those protectionist bills to go through. He has indicated publicly that if a bill comes out of Congress calling for protectionist measures, because he is a free trader, he will veto it.

As long as that President is in that position with that attitude towards free trade, it is in all probability going to continue to follow the current course of events, which is a limited protectionist barrier on the American side. I do not know whether a change in government or a change in President would alter that, but it very well could.

Mr. Barrows: The key question here is one of risk analysis. If you are doing an evaluation of a project that, let us say, has a five-year payback and you are just not certain what kind of thing is going to be in place over five years, that may enter into your calculation of whether you make that investment in Ontario or Canada. But as things stand now, the degree of irritant is relatively minor, considering the enormous volume of trade between the two jurisdictions.

10:50 p.m.

Concerning our trading relationship with the United States and with other jurisdictions, we think that while access is important and it is important to be able to enter the market, the key to all of this is really competitiveness. If we do not have

competitive products, then access to the United States or to any other market is nice, but it really is not a very effective component.

We would like to talk to you for a moment about competitiveness and our understanding of where we are with respect to our international competitiveness. When we look at the data, they suggest that Canada is a very small jurisdiction and does not necessarily have access to a major market. I think one can also turn those data around and say, "Because we are a medium-sized economic power, it is incumbent upon us to make sure we are internationally competitive in nearly all those export markets." Having said that, free trade or freer trade with the United States may be one way of achieving that competitiveness, but there is a whole range of other ways of achieving international competitiveness as well.

For example, if we look at the data in terms of our productivity in manufacturing growth, annual average percentage change over the period 1973 to 1984, we see that Canada has one of the poorest records in productivity performance. It must be understood that both the United States and Canada start from a relatively high base; so one would not necessarily expect the same large percentage rates of change.

That fact notwithstanding, we start to see a closing of the gap in terms of absolute output per capita, with the Japanese now having caught us and being on the way to surpassing both us and the United States. The plain fact is that we have not had in the recent past a very good record in productivity performance and that has affected our ability to compete internationally.

Mr. McFadden: Do we actually have the gross figure on output per hour as opposed to the increase? Do we actually have a figure that would indicate the average output per hour of the average worker? Is that in your slides?

Mr. Barrows: It is not here, but we will make that available.

Mr. McFadden: I think that would be useful.

Mr. Barrows: This chart provides only one measure of the extent or the cause of the problem. We are looking at the use of programmable robots in terms of 10,000 employees in manufacturing. We see significantly higher numbers for Japan, Sweden, West Germany and France. Canada tends to rank well down towards the bottom in the use of robots as of 1984. If we were to go out and find where those robots are in Canada, they would be; by and large, in the automotive industry. You will find them primarily in Oshawa, St. Thomas and Windsor. That is where we use robots.

When we look at how robots are used in Japan, we see them in a wide range of industry sectors. They use them in textiles, clothing and plastics. As I say, we tend to use them primarily in the automotive industry. Robots are only one example of a whole range of technologies, such as computer-driven machines. If we

could show you any of those charts, Canada lacks significantly in the use of those new technologies.

Mr. Brandt: What is the real definition of a robot? At what point does a piece of automated equipment become a robot? I have seen a great deal of automated equipment that looks robotic in the sense of what it does. When does the terminology change to make it a robot? There must be a fine point that identifies it.

Mr. Barrows: There is a definition. I think it has to do with being programmable and having a mobile arm. I can get you a better definition than that.

Mr. Brandt: As an example, the shoe industry in the chairman's riding now is looking at CAD/CAM, computer-aided design and computer-aided manufacturing, with the actual style of the shoe being cut by laser as opposed to a knife or saw arrangement. Would that qualify as a robot because it is completely automated?

Mr. MacDonell: We have been caught off guard with our definitions down. We have done some work on this.

Mr. Brandt: I would hate to see you with your definitions down. It is not becoming of you.

Mr. MacDonell: I cannot recall now, but it is a question of the function and, as Mr. Barrows said, of how programmable it is. Let us get back to you on that. I think it will be very interesting to see what a true robot is as opposed to an automated or mechanized piece of equipment, which is very common to most factories in Ontario.

Mr. Ferraro: Do you have a historical chart of that aspect based on years?

Mr. Barrows: The thing with robots is that they are a relatively recent phenomenon. We can go back and give you data on numerically controlled machining, for example, which has a longer history. Again, the data are quite consistent. In terms of what Mr. Brandt was talking about, what we are really looking at is a whole range of programmable, computer-driven technologies. He is talking about ways of cutting. That is computer driven technology, not robotics.

Robotics is a particular form of that, where there is a movable arm. The most common use, for example, is in a pick-and-place robot where the material is fed in and the robot picks it up and places it in a particular location.

Mr. Ferraro: I am trying to get a sense of how quickly this robotic transition is taking place in our country and others. Even from 1983, would there be significant changes aside from the definition?

Mr. Barrows: From 1983 there would not be any significant change. The number of robots has increased substantially in all countries, but our place has remained relatively the same.

Mr. Ferraro: And that is through the whole range of technologies.

Mr. Wallace: This data is drawn from the annual Robotics Institute of America survey provided by a number of manufacturing employees. As we were saying, a robot is programmable and has an arm so that it can pick and place, spray paint, arc weld and perform very few other functions.

Mr. Brandt: What about cutting a piece of metal?

Mr. Wallace: It depends on the type of cutting. A laser that does not move and cuts the sheet metal that passes through it would not be a robotics device unless it went through and traced the pattern of the metal as the metal was held.

Mr. Brandt: In auto parts manufacturing, where an arm and/or a cutting tool comes down, totally programmed through a computer and cuts out the piece, which is then moved from there--

Mr. Ferraro: To the machine.

Mr. Brandt: Yes. It is a very precise piece of machinery, a transmission part or something. I have seen some of this machinery, which looks as if it could be, by way of a broader definition, robotic. When you are looking at robots, you are talking about moving into the world of automation and a piece of equipment that totally automates a plant. There are some other relevant numbers. That is what I am getting at.

Mr. Barrows: I understand what you are saying. The kind of thing you are talking about would fall under the definition of a computer numerically controlled machining and cutting to form. In those data as well, we lag behind.

We have significantly increased our utilization of that in a whole range of metal-working and other industries, but that fact notwithstanding, it is happening much faster in other jurisdictions. We will get you those numbers.

Mr. Brandt: If you are talking about the world of automation to improve output, robots are not the only factor that goes into the equation. Although we are very low in the field of robots and we are lagging behind our other international trading partners, we may well be better in another field. I do not know that; that is why I am looking for the definition and how strong we are. Is there another chart--you have already indicated there is not--with respect to automation?

Mr. Barrows: Not here, but we can get you that. We are using much more computer-controlled equipment for a whole range of production processes in other areas, but when we look at our comparison internationally we still lag in whatever definition you use. The kind of machinery and equipment you are talking about is just one of them.

Mr. Mackenzie: In terms of our rating on that chart and our rating on the previous chart that showed a lower productivity

increase than some of the other nations, how much of that is the result of our branch-plant type of an operation, smaller runs and access only to a Canadian market? I must confess I am influenced by the SKF experience before the select committee on shutdowns.

Mr. Barrows: If we look at the data, in some cases we are talking about a 20 to 25 per cent productivity gap between the United States and Canada. Some of that is attributable to the small market and the fact that we have both multinationals and Canadian-owned firms producing solely for this market. Because of its size and because of the variety we require, which is similar to that of the United States, we get those productivity differentials.

Mr. Mackenzie: But we also have some tendency to skewer the figures here.

Mr. Barrows: There is no question about it.

11 a.m.

If we then go on and look at the other part of the innovation equation, which is the development of new products in Canada, with respect to research and development expenditures, again we find Canada lags significantly behind other trading nations. We are not spending a lot of time in the upfront part of the research and development cycle. We are really not heavily involved in the development of new products in this jurisdiction.

Mr. Mackenzie: Does the same reasoning apply there?

Mr. Barrows: Again, there are small and medium-sized Canadian firms which have historically looked at the domestic market. As a result, they have not been necessarily involved in a lot of new product development. This does not apply to all of them, but many multinationals have a mandate to replicate what the parent is developing in the United States or offshore.

Mr. Mackenzie: Once again, a number of firms which have appeared before this committee were not doing any research and development simply on that basis.

Mr. MacDonell: One measure of our innovation capability is to look at the number of firms in the consulting field that are full-time, new product development specialists working as consultants to management. In the last five years, from discussions with the surviving members of the industry, they have virtually disappeared because the innovation process is not being conducted in Canada to the extent it was. We have a very small market now for the kind of design engineering and new product development those engineering firms brought to bear.

Mr. Barrows: Finally, I think it is good to point out that a resource-based economy tends to have less research and development than one heavily into consumer products and those kinds of things.

Mr. McFadden: This is a typical list of industrialized countries. I am curious to know if there are any figures with regard to, say, Taiwan, Korea, Hong Kong and Singapore and what they typically would be doing in research and development expenditures. Do they license or steal technologies, or are they also doing much in this area? Do we have figures on what the percentage of their gross national product would be on research and development?

Mr. Wallace: These figures are drawn from the Organization for Economic Co-operation and Development. Those countries are not generally members. I have never seen data on that. My understanding is that expenditures as a percentage of national output would be substantially lower.

Mr. MacDonell: They are much more concerned with new product and product development, that is, taking the basic concept and using the advantage of their low wage rates. I believe Mr. Wallace is right. We will look for those figures, but we have not considered that because we have not been tied into that type of competitor.

I think you will find that, especially in the past decades, they have really seized, not on developing the products so much, but manufacturing them at a high quality, low cost. The videocassette recorder and the television set would be good examples.

Mr. Barrows: It is hard to generalize, but if you use Japan as a model, it basically started by copying other people's technologies and trying to refine them. Having done that, to a great extent they now seem to be moving into the research and development phase. Whether Korea or Taiwan will follow that model is uncertain at this time. However, it has been the Japanese approach to copy other people's technologies, then try to build from there to develop their own.

Mr. McFadden: This is probably not in your purview. However, do we have an indication, for example, with the patentable processes being used, when they go into manufacturing something, how much they are prepared to enter into licencing agreements and pay royalties and how much of it essentially is a theft of processes?

I know this is a major problem in the patent and trademark area. I am curious to know if there is any information, perhaps not figures per se, but any indication from your dealings as to what is happening there. Very clearly, it is a potential revenue source for a lot of companies.

As I understand it, in Hong Kong in particular, where I have run into this in my own practice, theft is the order of the day. If they can grab somebody's process, whatever it is, and then replicate it, they will do it without paying any royalties at all. By the time you track them down, they have relocated somewhere else and you have to chase them all over the Orient. I am curious to know how serious a problem that might be in your perception.

Mr. MacDonell: I think Mr. McFadden said something that is true. All I can add to it are the stories I have heard. However, I think it ties in with your earlier question. That is one of the ways in which they have moved so quickly. I do not think they have had the industrial base and, until recently, they did not have the educational systems. I think that is really what has happened. Maybe we should see what we can do. Perhaps somebody in Ottawa will have some numbers on it.

Mr. Barrows: We will see if there have been some international studies in that area.

Mr. Mackenzie: This is a bit off the line, but do you also have any information you can pass on to us as to what the results may be of the Japanese major move into the aerospace industry now? I understand they have a five-year plan they have now put in place in terms of the aerospace industry.

Mr. MacDonell: I think we can predict one thing. They will start out with good technology. They will buy it and then use their talent for manufacturing. They will build up a very high-quality product. They will use their ability for product development to improve on it. Above all, they will give a very high-quality product at a low cost because of their manufacturing capabilities. I think that will be their strategy.

Mr. Mackenzie: I understand they are inviting in United States companies and using content legislation requirements to duplicate things as well.

Mr. MacDonell: That has pretty well been their process. Their pitch will be quality and cost at the manufacturing level.

Mr. Barrows: The next chart looks at our share of world trade over time. As you may be aware, we have experienced a substantial decline in our share of world trade over the period 1970 to 1984, primarily due to a severe lack of competitive capability over that time as we became partly displaced from the major markets of the world.

If you look at the data, you will see a rather significant rebound for both Ontario and Canada since the early 1980s. As the deputy minister indicated, we have had some success in a wide range of sectors, offices and store machinery, for example. However, if we look at the data closely, we find that primarily the significant increase is as a result of the automotive industry. A unique series of events brought the automotive industry back with a vengeance.

Mr. MacDonell: As David said, if we were to take out the impact in both charts of the terrific expansion of the automobile industry, we would find that this market share position would be slightly lower than it was before, indicating that in the nonautomobile area, we are not gaining as much as would appear, once we take the automobile sector out.

Mr. Brandt: Here we have benefited from the ease in the oil crisis as well. If you look at the time that our trade started to drop, I think part of that would have been driven by the reduction in the sale of large cars back in the early part of the 1970s with the crisis in energy hitting just at that time.

There were the lineups at the pumps in the United States and the subsequent impact that had on the sale of large cars. It would be interesting to see what the public reaction was. If there were any polls about the energy crisis, I bet they would follow that line rather interestingly.

11:10 a.m.

Mr. Barrows: Yes. What I would like to do to finish up the presentation is to have some preliminary discussion with regard to the risks and costs of a potential bilateral free trade agreement with the United States.

This is the chart I alluded to earlier in terms of one of the questions asked. We have made an estimate that suggests about 60 per cent of Ontario exports to the United States fall within the concept of what you would call managed trade. In other words, this is trade governed by institutional factors, such as the automotive agreement, the defence-production-sharing agreement and intercorporate shipments between parent and subsidiary. Only about 40 per cent of our exports are freely traded, as economists would define that concept.

Therefore, because of the significant nature of the trade that is institutionalized, it is difficult to come up with a precise and accurate impact of what a bilateral free trade agreement would do between Canada and the United States. Would more happen on under defence sharing or would less happen under defence sharing? Would changes in the auto pact increase our relative trade with the United States or might it decrease it? What would be the behaviour of the multinational corporations, given free trade between the two jurisdictions? Would they expand their facilities in Ontario and rationalize their production or would they move activity back to the United States and rationalize in that jurisdiction?

It is hard to know and it is hard, quite frankly, for economists to predict because of the large extent of the managed trade. It is very difficult to know what the economic agents would do. The free trade model is predicated on rational behaviour among economic agents without this managed trade component tied into it.

This gets into the whole question that was raised earlier about control of Ontario's manufacturing industry. In 1981 data about 45 per cent, or \$42 billion, is Canadian controlled, a similar amount is controlled from the United States, and about 10 per cent, or \$9 billion, is controlled by other foreign jurisdictions. This is a very heavy component, a unique industrial structure for Ontario and for Canada, a very high component of foreign ownership, and again it is very difficult for the econometric models and the economists to generalize what the implications of this will be on the high degree of multinational ownership.

To look at some of the specific sectors, transportation equipment, chemicals, electrical products, petroleum and machinery, all have greater than 50 per cent United States control; food and beverages has about 28 per cent and primary metals about eight per cent. So in major sectors of our economy the decision-making is controlled offshore.

Mr. McFadden: I notice that those figures are five years old, and there has recently been quite an infusion back and forth of investment money, a lot of Canadian money going abroad since then and, of course, foreign money coming into Canada. Is there any indication that anything significant has changed in five years, or do you expect it to be roughly the same today?

Mr. MacDonell: We looked last year to see whether we could get a reading of what total investment in manufacturing was in the province, and that would include investment in manufacturing equipment, facilities and repairs. The figure was \$6 billion, of which about \$3 billion was from foreign sources. So despite what we have heard, at least in the year we looked at, last year, there seems to be no lack of foreign investment or lack of interest on the part of foreigners in investing in Ontario.

Mr. Barrows: These figures change relatively slowly over time. I would expect they would be pretty well similar.

Mr. MacDonell: The base is very large, so the change would be small. But the inflow is up, and it seems to be very consistent with the overall picture of 50 per cent.

Mr. McFadden: I was wondering in particular about the chemical products and the petrol. I am not sure what you have under those categories but, of course, with the national equity program there have been substantial ownership changes. I am curious about whether those two might at least have changed.

Mr. MacDonell: I think in the last month or two probably.

Mr. McFadden: That is what I was thinking.

Mr. MacDonell: That is probably correct. There has been a drop in foreign ownership of the petrochemical industry.

Mr. Barrows: The next chart shows some selected sectors, our employment levels in Ontario and the current trade deficit with the United States. As the chart indicates in this case, a number of sectors which we have identified have a total deficit in 1984 of about \$10.2 billion, which currently accounts for Ontario employment of about 210,000 employees.

It is difficult to generalize from this data but there might be some presumption that we are already running significant deficits with respect to those industries. With that degree of employment, would a bilateral free trade agreement with the United States cause even greater deficits to these industries and perhaps put the existing 210,000 employees in further jeopardy regarding their ability to compete internationally?

Mr. Mackenzie: You mentioned earlier one of the areas of some increased shipments and trade; I think it was office and store. I take it is the high-tech end of the business. Does that include computers?

Mr. MacDonell: We are very small in computers. That is not something we have an indigenous--

Mr. Mackenzie: That does not enter into it then.

Mr. Barrows: They have just aggregated that number. We have a better slide now because it gives you a handle on exactly where we are in regard to our trade relationship with the United States in different technologies.

Mr. MacDonell: This is high technology, medium technology, low technology, motor vehicles and the resource base. What we are concerned about is the high-tech deficit and the difference between the deficit during the last hearing compared to the deficit of five years ago.

Mr. Chairman: Just for the record, in case the microphone was not on, Mr. MacDonell has talked about the difference in high technology between five years ago and now.

Mr. MacDonell: Perhaps we could slide it over if you like so you can see the time frame.

This, as David Barrows has said, is one of the very significant charts. It deals with several questions that have come up so far regarding our ability to compete in our own market as well as abroad in the various categories.

Mr. Barrows: If you look at the data, we see that Canada has historically had a surplus in resource-base products and that surplus has increased down at the bottom.

Mr. MacDonell: Plus it means we are exporting more than we import and we are gaining ground.

Mr. Barrows: If we look at motor vehicles, we see that in 1979 we were in deficit and, as we indicated earlier, we have gone into substantial surplus by 1984. That surplus tends to mask what is happening in the top three columns. If we start at the top and look at high technology, we see a rather significant deficit in 1979. That has doubled by 1984. Those are all high-technology products, computers, the sophisticated plastics, where we have historically had difficulty in this country. That is increasing dramatically.

Similarly, in medium-technology products, our deficit is increasing, as well as increasing in low-technology products. If we extract motor vehicles from that data, we have about a \$14.4-billion trade deficit with the United States in high-, medium- and low-technology products.

As to the argument that Canada needs a bilateral free trade agreement in order to get more competition in our domestic market,

if we look at the data, we seem to have quite a bit of competition now in a whole range of technologies, with significant import penetration and significant deficits in high-, medium- and low-technology products.

Mr. McFadden: I wonder if this is the appropriate time to look at this because we do not have the time, but it may be of interest for us to spend time--maybe that would be after the middle of October now, as we are running up against some deadlines--to do some real analysis on the significance of this chart and talk to people directly involved in those industries and so on.

I think it is a matter of obvious concern to everybody as to why we seem to be doing so relatively poorly on low, medium and high technology. Basically it is worse in high technology than in the other two.

11:20 a.m.

Mr. MacDonell: The higher the technology, the greater the deficit and the faster the deficit is growing. That indicates an era of turmoil in the province as the firms here begin to adjust to this. One view is that while this struggle goes on--and about 20 per cent of all employees of our \$1-million base are involved here--if you add another adjustment process on top of that, you may well have a disruption in the Ontario manufacturing base that will be very substantial.

Mr. Mackenzie: I think it also points out very clearly that without our traditional resource-based surplus, and that is usually capital intensive, we are in trouble. Without the planned fair trade arrangement and our auto pact, we would be in all kinds of trouble. We do not want to ask for more of it

Mr. MacDonell: That is a very good point. If this continues and we look at the total position and say, "That is not a bad deficit," but if you begin to disaggregate it, as David has done here, and show where the pluses are; and if we suffer slower growth with our great resource base and anything should happen of a cyclical nature, then these areas would become more and more of a problem to us.

Mr. Chairman: Just by way of information, as a result of some instructions we were given some time ago, we contracted with Arthur Donner to look very particularly at high-technology industries and give us some information as to what is happening and what can be done. I think the ministry might be interested in this too and hopefully we will have that information by January.

Mr. Knight: The academics who have come before us have indicated that free trade with the United States would be beneficial in making Ontario industry more competitive to reverse that kind of trend. I find it interesting that your proposition is that there is competition there right now and that free trade may create additional turmoil within Ontario industry.

Are you suggesting we have to take a hard look at what is

happening within Ontario industry now and try to find some method of improving our situation before we start talking seriously about opening it up even further?

Mr. Barrows: We said earlier that the key issue from our perspective is one of international competitiveness and one's ability to compete in the United States and other markets. This data suggests that we are having trouble now under the present trade arrangements in our ability to compete in our own market and in our ability to compete abroad.

If we look at the data, we see tariffs continuing to decline both in Canada and the United States up to 1987. The fact that we are open to more competition and we may have somewhat more secure access to the US market does not imply that somehow a small developing firm, let us say in Kanata, in the high-tech industry is going to be able to make it.

It raises the questions of what other things are going to be required for those kinds of firms to survive over the next 10 or 15 years. In fact they do not have access to the kind of secure market that a lot of the US firms do in terms of defence contracts.

We do not have that range of government procurement in this country that provides that ongoing basis for small- to medium-sized high-tech firms in Ontario. I think it is hard to draw hard and fast conclusions. We are simply trying to raise the question of how much competition we need. Is this not enough? How much more do we require? Would securing access to the US market be the necessary conditions for all these small- to medium-sized Canadian-owned firms to grow? It is not shown that this is the case.

Mr. Knight: The analogy has been raised that free trade with the United States is kind of like being asked to a free lunch: somebody has to pick up the tab. I guess the concern we should have is to what extent would Ontario have to participate in that tab and perhaps even Dutch treat is not in our best interests.

Mr. Barrows: The thing we have not discussed, because it enters the realm of specific negotiations, is that in some quarters there seems to be a presumption that we will gain access to the US market and the United States will not want anything in return. It is important to think about what the US negotiating position is going to be.

By and large, it has relatively free and unimpeded access to our market. It will want something in return in any kind of bilateral agreement and the question becomes what. For example, would it be the safeguards in an automotive agreement? Would it have to do with agricultural subsidies or regional development incentives such as the Ontario Development Corp? We do not know at this stage, but presumably the United States would want something from Ontario and Canada as a whole in return for a bilateral free trade agreement.

Mr. McFadden: Vis-à-vis the rest of the world, as you know, this committee has been trying also to orient itself towards

what the other options are besides just an opening with the United States in one way, shape or form. Do you have a picture of this with regard to, say, the European Community countries, Japan or elsewhere? Is it better or worse?

Mr. Barrows: We have that data for trade and technology goods. It is hard to get on a comparable basis, but the last data we have seen suggest Canada is one of the few developed countries in the world which has an imbalance in high-tech products. Whether you look at Italy, Belgium, the United Kingdom, Japan or the United States, by and large they all tend to have surpluses on the high-technology account.

Mr. MacDonell: I can recall some of the recent work we have done. If we look at the major trading partners on an import-export ratio in high-technology products, of 10 countries only Canada and the Union of Soviet Socialist Republics are negative. That is, they import more than they export in high technology. However, the Americans have declined from four or five years ago, which is very interesting, because all of North America is suffering from the same difficulty. We are all in trouble over the same problem. We are not keeping pace technologically, particularly with the Pacific Rim, Japan and certain parts of western Europe.

I think the turmoil you see in North America over trade has a deeper issue, which is that we are beginning to feel the effects of no longer being the major exporters of high-technology products around the world. We are losing markets. We are being displaced by other jurisdictions with their technology. We have a chart that shows Japan is rising faster than any other nation in the world in this export-import ratio of high-technology products. The answer is, we are down at the bottom with respect to the principal competitors.

Mr. Knight: Then the United States basically has a similar problem to ours. We are obviously just more exaggerated by far, as developing--

Mr. MacDonell: The United States is declining with us. I am not sure which one is going down faster, but I know North America is declining in the face of the rest of the world. That is very difficult for people to grasp and it is very painful for the Americans.

Mr. Chairman: I believe it was way ahead of everyone else in research and development.

Mr. MacDonell: For many years it was the great exporter of research and development in every field. For example, in the whole technology race we see in consumer electronics, it invented the basic ideas. All the basic elements that go into modern televisions, videocassette recorders, portable radios and so on, were invented in the United States and developed in Japan. That has developed on a widespread basis.

11:30 a.m.

Mr. McFadden: If some of the Pacific Rim countries, in addition to Japan, were to start ploughing more of their earnings into research and development, product refinements and so on, they could potentially become even tougher competitors all around.

Mr. MacDonell: As their balance sheets and their income improve, undoubtedly, as Japan is doing now, their percentage of gross national product going to R and D to accelerate their leverage will increase.

Mr. McFadden: They would have that plus a lower wage rate.

Mr. MacDonell: Yes, and they would surely have much stronger company balance sheets to deal with because their savings rate and their productivity increase have strengthened enormously, particularly in the last decade.

Mr. Cordiano: What percentage of gross national product do those technology sectors account for?

Mr. MacDonell: In Ontario, we look at the amount of the output and employment; roughly the same thing. That group accounts for 20 per cent.

Mr. Chairman: For the record, is high technology now 20 per cent of gross national product?

Mr. MacDonell: Yes. Perhaps you would like me to read what we mean by high tech, because it is meaningless without some definition.

Mr. Chairman: Perhaps you could sit down and read that; then it will go in the record.

Mr. MacDonell: What we define as high technology are those industries that require a good deal of research and development. They are chemicals and chemical products, petroleum and coal products, communications equipment, scientific and professional equipment, miscellaneous machinery and equipment, office and store machinery, pharmaceuticals and medicines.

Mr. Cordiano: That would span the range of high, medium and low technology?

Mr. MacDonell: Yes. The ones I have just read fit here and they represent about 20 per cent of the employment. This sector is growing at about twice the rate of these other sectors. In a simplified form, we feel these have to be modernized and these have to be accelerated.

Mr. Chairman: Then high technology is growing at twice the rate of medium and low technology, the medium- and low-technology sectors have to be modernized, and basic tech has to be accelerated.

Mr. Cordiano: You have given us 1984 figures. Do we have figures of what Canadian companies are doing, because there is a deficit as far as trade goes between the two countries?

Mr. MacDonell: Yes, we have that. Do you mean in terms of employment?

Mr. Cordiano: In terms of employment and perhaps output.

Mr. MacDonell: I will give you manufacturing shipments. From 1977 shipments have risen in the higher-technology items from about \$1.5 billion to about \$3.6 billion.

Mr. Cordiano: We are making some significant gains.

Mr. MacDonell: Yes, we are growing. I can show you this chart later and we could produce such a chart to show the gross since 1977. What we are anxious to do is to grow at the top end. We want to try to shift our position from the slower-growth, older technologies to the new, fast-growing technologies that make us more competitive in the international marketplace.

Mr. Cordiano: Do we have a breakdown of what sort of companies are in the high-technology sector? Are they foreign-owned companies or are they largely Canadian companies?

Mr. MacDonell: There is a very high component of foreign ownership in those companies.

Mr. Barrows: There is a significant amount of Canadian ownership as well. There is something called CATA, the Canadian Advanced Technology Association, located in Ottawa, that is composed solely of small- to medium-sized Canadian-owned firms. Again, that is a relatively recent phenomenon for Canada. The last 20 years or so was the time you started to see the growth of these kinds of firms.

Mr. Cordiano: Are we seeing any exports of products manufactured in those areas?

Mr. Barrows: Significant numbers.

Mr. MacDonell: Very high export performance.

Mr. Cordiano: We have a breakdown of these?

Mr. MacDonell: Yes.

Mr. Cordiano: I have been asking a question throughout our hearings about the type of export performance we have seen from foreign-owned companies compared to that of Canadian-owned companies.

Mr. MacDonell: You may remember that in our first presentation we pointed out that quite a small proportion of Ontario firms export; only 20 per cent of the 14,000 or 15,000 firms in the manufacturing field export. Those owned by foreign companies have an even lower rate, because the branch plants that are owned by foreign companies are not encouraged to compete with the parent, except where they have a global product mandate. There they are aggressive on a world basis.

Some of them do their research and development and their new

product development here and are very successful at it. We have all these data, which we can provide.

Mr. Cordiano: There is a view that if we have more investment in those areas, then we can close the gap. That is a proposition about which, I am sure, there are a lot of questions. It is something we should certainly look into in more depth.

Mr. Brandt: I hear what is being said with respect to the erosion of our competitive position and some of the difficulties we have, particularly in the high-tech category. But I also hear a proposition being raised that, since that is the case and since we are having some difficulty in competing in that particular area of the economy, perhaps we should bunker down and protect a little more in order to save those industries or to save them during their embryonic, fledgling stage of development.

Has that ever been done successfully, to your knowledge, anywhere in the world? Is there anywhere that you can bunker down and simply ignore the realities of your competitive position in relation to other countries in the world? How long can you survive on that basis? The reality is that there is a distinct danger in attempting it sometimes, and we have talked about protecting loser industries as opposed to pump-priming winners or industries that are running, and those kinds of things.

Does Ontario, which is really Canada in many respects in respect to trade, have any option but to try to open up markets, to enhance its access to other markets, recognizing the realities of our small domestic market, our very small population in Ontario in relation to other parts of the world? When you look at all those factors, how high can the protective barriers be placed in order to comfort and protect those industries when you are subjected to the kind of competition that the world is developing around us, whether we like it or not?

Mr. Barrows: Can I come at it on two levels? On the theoretical level, if you have had the academic economists through, they will tell you that, in their opinion, there is only one basis for protection, and that is what they call the infant-industry argument. They say, "We will allow a certain amount of protection for industries to allow them to get to a stage of development where they can take off and grow on their own."

Mr. Ferraro: Like the beer industry.

Mr. Brandt: Yes, that is a real new one.

11:40 a.m.

Mr. Barrows: Taking it from the theoretical level to the practical level, it has worked. If you go back to US economic history, that was the whole notion behind high tariff protection of US industries. The textile and cotton industries would have been swamped by the then very efficient United Kingdom industry.

The problem with the infant-industry argument and that whole

approach is that at some point, as you say, you have to move away from that and compete internationally. Some would argue that the United States actually did that. Again, in a more recent time frame and from a practical point of view, what the Japanese have done is very instructive. They have targeted some industries where they have made horrible mistakes, such as petrochemicals and shipbuilding. Their investments in those sectors were not very effective, in retrospect.

In a whole host of other industries, however, whether it is automotive or some of the consumer industries or electronics, it has proven to be a very successful strategy. You can target certain areas, build up a domestic capability and expertise and then go on from there and compete aggressively in export markets. When you look at small- to medium-sized high-tech firms in Canada, they really have no government procurement to speak of that they can look at as a sustaining base upon which to go out and grow and develop an export market.

Mr. Brandt: That is almost always defence, is it not, when you talk about government procurement?

Mr. MacDonell: Or the government itself. When you have a government the size of the Japanese government purchasing for its needs, you have an enormous market with about five times more purchasing power than our multibillion-dollar federal and provincial government purchases.

Mr. Brandt: That was part of the comment I made in the context of my question about our small domestic market making it very difficult for us to have a bunkered-down mentality about where we are in terms of major trading partners. How defensive can we be and still maintain a high standard of living?

Mr. MacDonell: If you remember, when you look at earlier data about the nature of Ontario's trading position, that is, the highest exports per capita--three times that of Japan, for example, and four times that of the United States--then if you look at our imports per capita, which are the highest in the world on a per capita basis--with the exception of Saudi Arabia, which probably has declined in the last year or so--we have such an open trading relationship with the rest of the world.

We are so dependent on exports that you would have to be very careful about protectionist moves. We are very much involved, and have been for the last four or five decades--or as long as the GATT has existed--in supporting the GATT movement around the world as the way to open up trade amongst the nations.

If your question is whether a protectionist option looks like a viable one to consider for Ontario, it might be, but it looks like one of the least desirable ones.

Mr. Brandt: The agenda of options is not all that difficult to identify. You have the protectionist option, where you go the opposite way of free trade; you have the status quo; you have a freer trade or market enhancement, market accessibility kind of thing, which simply opens up the issue to an easier flow

of trade between countries; or you have flat-out free trade, whatever that means. There are not many options to look at other than those.

If you move away from free trade, it is unlikely the status quo will remain. I am convinced of that. In other words, the situation as we see it now is going to change. It is going to alter as a result of protectionist policies in other jurisdictions or whatever, so we move to a protectionist policy or we move to a freeing up of trade--not necessarily free trade, but a freeing up of trade or removal of trade impediments or trade barriers--if we are going to maintain our present position or perhaps enhance it as it relates to expanding our trade activities in the future.

Mr. MacDonell: The proponents of free trade have said in effect to parliamentarians, both here and at the federal level, that the status quo is not really an option. I have had difficulty in understanding what they mean by the status quo. The status quo is a very dynamic situation and it suggests something that only exists in theory.

As we pointed out earlier, we are evolving rapidly as we move from an industrial society to more of a post-industrial society. Since the Tokyo round was concluded in Geneva, our tariffs have progressively gone down. Our trading relationships with the United States have shifted. Mr. Brandt, it is a very dynamic status quo.

Mr. Brandt: Those who argue that the status quo will not remain are not necessarily talking about arbitrary moves on the part of Canada or Ontario. They are looking at the hundreds upon hundreds of protectionist bills that are coming before Congress and the very distinct possibility that, if the \$150-billion trading balance continues in the United States, that country is going to take a number of moves to offset that imbalance to bring down the trade deficit.

Mr. MacDonell: That is true.

Mr. Brandt: That means the status quo will be altered by someone other than ourselves. That is what is being suggested and it is a distinct possibility.

Mr. MacDonell: They are basing most of their arguments on the fear of some kind of American protectionist action.

Mr. Cordiano: This is a supplementary question.

Mr. Chairman: Are you sure? You are getting ahead of your confrère otherwise.

Mr. Cordiano: It relates to the same matter.

Mr. Ferraro: What he is saying is it does not, but he is going ahead anyway.

Mr. Cordiano: I wanted to look at the technology-related sectors. What does the future hold for these areas if we get into

a new trade deal with the United States? Can we expect to see some further improvements in those areas, or is this really a dangerous situation which would be further eroded by trade with the US?

Mr. MacDonell: Let us take the high-technology area here. If our deficit is doubling under the present arrangement, then one might ask the question: What will happen if you reduce the protection those young growing industries have now?

Another question might be: If in the high-technology area a lot of foreign investment is actively involved in developing products in Ontario, would it continue when, if you like, North American becomes one market?

Mr. Cordiano: It has also been suggested--

Mr. Chairman: Perhaps I can just put that on the record. Mr. MacDonell has indicated that we have to show some concern about what is going to happen in the future in view of the fact that the high-technology deficit has doubled in four years. What is going to happen if we have a free trade market?

Mr. MacDonell: I was suggesting that those who appear before the select committee might explain their solution. These are simply facts. There are those who say it will be wonderful if we have no barriers at all.

Mr. McFadden: I have a supplementary to your answer to Mr. Cordiano's question. You mention protections that now exist. I perceive, from your earlier slides and from what we have heard, that there is little, if any, protection now.

Mr. MacDonell: Yes.

Mr. McFadden: What protection for those industries would be removed anyway? I am curious. It seems to me they have very little protection as it now stands. What protection would they have besides tariffs?

11:50 a.m.

Mr. MacDonell: The relationship is that--Dave can correct me if I am wrong--each year we reduce our tariffs, which may be 12 or 13 per cent, by one per cent. The Americans in their agreement with us drop theirs two per cent, so in some of these industries there is still some tariff protection. When you add the value of the Canadian dollar to that, you have protection that is helping these firms grow. However, there is a sliding scale, step by step, through to 1987, which we calculate will have 80 per cent of our exports going into the United States tariff-free and 70 per cent of its imports coming into Canada tariff-free by agreement.

Mr. Barrows: We could focus unduly on the trade aspects of this, but Canada and Ontario have a number of industrial policies that have been designed to stimulate the sector. For example, there are tax expenditures, the facility for tax

write-offs and other tax provisions to stimulate research and development, particularly in these kinds of companies. There is the defence procurement program. If you look at the Ontario Development Corp. loan portfolio, you will see, for example, that the ODC was one of the first into Mitel Corp. when it was just getting started and being developed in eastern Ontario. So I think you might focus unduly on the trade aspects of this.

There are things we are doing now which may or may not be deemed to be acceptable in a trade agreement with the United States. I think you are familiar, as a result of your trip to Washington, with the concept of a level playing field. It is very important to the Americans, as is the notion of what is fair and unfair on behalf of government.

The federal and provincial governments have acted somewhat aggressively in trying to stimulate high technology. For example, Alberta has used its heritage fund moneys to try to stimulate a medical research capability in that province. Whether those things would be deemed to be acceptable or unacceptable under the bilateral free trade agreement is uncertain, depending upon how the level playing field is defined in that relationship.

So it is important in this context to look beyond the trade mechanisms. It is also important to try to get away from the pure distinction of whether you are for free trade or you are for protection and there is nothing in between. Both of those concepts would be misplaced.

That is what we were trying to get at when we were talking about competitiveness. There is more to our ability to sell than having a bilateral agreement with the United States. We have to have competitive industries doing research and development, using the most modern production technologies. If we do not, then the access to the United States market is academic.

Similarly, there is a whole host of trading relationships we can have with the United States which is something other than protectionist.

Mr. Cordiano: It was also suggested to us in Washington that most of our companies were not taking advantage of the opportunities for defence procurement contracts and that whole area of military spending in the United States. As it relates to this particular sector, what do you think our companies are doing to compete with the American companies in the area of military spending?

Mr. MacDonell: The Americans say that. We recently hired a defence expert to be located in our Philadelphia office. He has been talking with me and members of our staff to get a handle on whether there is some truth to that.

Generally speaking, I suspect we are not taking advantage of it, although Canadian companies are becoming more aggressive about exporting. It may be that some firms are having difficulty gearing themselves into that system.

In two or three months we should have an answer for you as to what extent there is some truth to the statement that we are not being as aggressive on the defence-sharing agreements as we should be.

Mr. Chairman: It begs a lot of questions and perhaps I could bring up a supplementary myself. It is hard to imagine this sort of industry without governmental support. Is that not what the United States is doing with the defence programs?

Mr. MacDonell: It is an enormous stimulus to technology-based companies.

Mr. Chairman: Our high-tech industries in Ontario tend to be largely in the Silicon Valley in Ottawa. I asked questions about why we are not doing as well in my region, the Waterloo region. We are not doing nearly as well, although we supposedly should have been able to, and it is largely because of government support. That is a very large part of the existence of high-tech industry, is it not?

Mr. MacDonell: I think over the past year the federal government has been fairly supportive of many of its new, small high-technology companies in several different ways, to try to accelerate their growth and to try to help them get started.

Mr. Barrows: I could give you something anecdotal. I was on a panel a few years ago with an American company. They produce semi-conductors and microchips and they were bemoaning the fact they had not received any financial assistance from the United States federal government in the development of their products. I said, "I appreciate that, but have you had any defence contracts?" They said, "Yes, a couple of billion dollars' worth."

Really, that may not be pure research and development grants up front, but the nature of those contracts is such, given the way they are structured, that they are allowed to do an awful lot of research and development within the context of those products. In fact, having made that investment, they are able to use those products in the commercial market.

Canadian firms just do not have that same capability. Again, it is questionable, even with a completely bilateral free trade agreement, whether or not some of the very sensitive defence-related products would ever go offshore, and whether or not the United States Department of Defence would ever allow a Canadian or other company to become involved in the critical aspects of defence technology.

Mr. Chairman: I suspect this will create a great communications problem in any negotiations because there needs to be a level playing field or a level ice service.

Mr. Ferraro: I have a question a little off the present conversation; nevertheless, it is pertaining to the auto pact in particular and our auto industry, which we know is a wonderful thing right now.

How competitive is our auto industry in Ontario? Is there a security blanket because of the auto pact? Has the auto pact, in essence, enhanced the development technologically of our auto industry vis-à-vis other countries or, in fact, do we have a little comfort protection there because of the auto pact? I am talking about sheer competitiveness.

Mr. Barrows: If one goes back to look at the automobile agreement, one has to take the world in 1965 where essentially, with the exception of western Europe, North America was the prime manufacturer of automobiles.

What the automotive agreement did was to move design research capacity from Canada back to the United States and, because of the production-to-sales ratios and some of the other guarantees within the pact, to elicit a significant capital investment on the part of the North American manufacturers, to the stage now where vehicle facilities in Canada are among the most productive.

Mr. Ferraro: Some could argue they moved the design research to Japan, David, and the United States got caught with its pants down.

Mr. Barrows: That is the next point. In fact, if you look at the pact in the North American context, it has been beneficial to Canada by and large. While we did lose some R and D and design work, we got massive capital investment in facilities which in the North American context are among the most competitive.

Of course, the whole world has changed now and North American facilities are not necessarily competitive with what is happening in Japan and in some of those other jurisdictions. As a result of tying ourselves so closely to the North American producers, while we are competitive within this context, we have lost with respect to something else to the rest of world.

That gets back to the chart we showed earlier. The greater our dependence upon the United States, the more we are tied to their markets and their technologies. A bilateral agreement would enhance that tie-in to the United States. So, literally, as the United States went, that is how we would go in regard to our markets and our technology.

One might wish to make the case that we might wish to diversify our risks in both markets and technologies and try to have broader relationships with the rest of the world.

12 noon

Mr. MacDonell: However, Mr. Ferraro, and I agree with what David says, there are some writers who feel the North American automobile industry was neither helped nor hindered by any relationship; that its assault by the Europeans, and especially the Japanese, was a completely different issue; that our relationship had nothing to do with the rise of Japanese auto technology.

Mr. Chairman: There are a couple of things I would like to raise. Initially, going back to one of your charts, you indicated an estimate, and I appreciate it has to be a rough estimate, of one million jobs in Ontario and 700,000 in the rest of Canada depending on the United States and, conversely, two million American jobs depending on Canada.

To what extent can you break that down? One of the interesting ideas that came out when we were in Washington was that if we really have to get involved in the nitty-gritty of American politics, one of the things we are going to have to do is perhaps break down their industry state by state in order to lobby their congressmen and senators as to how many jobs in each state depend on Canada. I suppose that means breaking it all down into sectors, etc.

Mr. Barrows: We have that data and a year ago last summer that is what we did on the steel industry. When we assisted the federal government and the industry to mount a lobbying campaign, we looked at all the imports from people on the House ways and means committee to get some notion of what was imported into Canada and into Ontario. When we did the lobbying with congressmen in the United States, we were able to take data down to them, for example, people in Long Island or Texas, and say, "Do you realize your congressional district exports \$345 million worth of products to Ontario?"

Of course, they were not aware of that, but we made them aware. That was part of the lobbying campaign to provide exemptions for Canadian steelmakers under the proposed congressional legislation on import restrictions. Yes, it is possible; it is doable. We have targeted essentially that kind of lobbying campaign around specific issues, for example, softwood lumber or the steel issue. It can be done on a much broader basis.

Mr. Chairman: We could be prepared to do that if it were part of our mandate. What about jobs in Ontario? What about these one million jobs? We heard some of these could be lost temporarily. To what extent can that be documented?

Mr. Barrows: As I say, there are about 300-odd bills in circulation which could have a significant effect. We have not aggregated that up to get a net job loss figure because the probability of passage of some of those bills is extremely remote. It is an ongoing process. It is difficult to keep track of them and aggregate that.

Mr. Chairman: But we can look at specific industries which in all likelihood would be losers, I suppose.

Mr. Barrows: Yes.

Mr. Chairman: To what extent has that been documented?

Mr. Barrows: We have some of those data and could make it available, but as I say, we are not keeping track of each of the individual bills with associated employment loss with each one of those.

Mr. Chairman: I would not expect you to because, obviously, most of those bills will never see the light of day. You could make some of that information available to the committee?

Mr. Barrows: The staff, certainly, sure.

Mr. Chairman: I understand members of the committee have received some documentation of press reports regarding surveys you have completed of businesses. Would you be prepared to comment on that?

Mr. MacDonell: This morning at eight o'clock we received a report, the first raw data on the studies we have been conducting and which we mentioned before the committee some weeks ago. The first data are available. David, I think you might say what the raw data mentions, particularly what you told the Premier when he asked the same question prior to his speech at the Empire Club.

Mr. Barrows: With regard to the survey--

Mr. MacDonell: We have actually brought a chart to show you what it looked like.

Mr. Barrows: We tried to look at the sensitivity of Ontario manufacturing industries to freer trade between Ontario and the United States. We have identified sensitive and highly sensitive sectors which account for approximately 32 per cent of Ontario manufacturing employment. These are sectors which currently have a high or very high import penetration and have not shown a great deal of capacity for exporting.

It must be understood that that is a generalization. Within any of those sectors, you can find very aggressive export-oriented companies, but we are talking about these sectors in general. That number gets you to about 270,000 direct manufacturing jobs, which was the statement the Premier used in his speech on Thursday.

Mr. Chairman: Can you break that down into sectors?

Mr. Barrows: Yes.

Mr. Chairman: Are you prepared to?

Mr. MacDonell: Mr. Chairman, when we vet this mass of material, we would be delighted to share it to the extent required by the committee as it emerges. This is the first cut at it and it looks as if about 270,000 jobs would be sensitive to any removal of whatever levels of protection there are between ourselves and the United States.

Mr. Chairman: You have 32 per cent as import-sensitive and you have figures here of export-sensitive as well.

Mr. MacDonell: Yes. If you like we could tell you what we mean by that and how we have broken out our sectors. David, do we have approximately 90 sectors?

Mr. Barrows: There are about 212 separate industries. Sensitive exporting means industries with medium to high tariff and/or nontariff barriers which are somewhat sensitive to imports but have a high export orientation. The feeling is that industries in those sectors might well benefit by reduction of tariff or nontariff levels in the United States.

Mr. Chairman: They would benefit.

Mr. Barrows: Perhaps, yes.

Mr. Taylor: Is there a reverse to this? This is speculation; you are projecting. If we do not go freer trade, what happens? The whole thing looks speculative to me.

Mr. MacDonell: Mr. Taylor, people seem to be most concerned about proceeding rapidly with some kind of a comprehensive arrangement. They seem to base their concern on the fear of a report that the American Congress plans to pass a series of bills which will protect the US market from our exports.

Mr. Brandt asked what would happen if the President refuses to pass those bills? You are sort of left up in this Never Never Land of would the Americans actually raise protectionist measures against their single largest customer in the world? Do they intend to raise protectionist measures to harm their largest customer?

Mr. Taylor: Millions of dollars have been spent by Canadians because of that very real fear. I am talking about lumber, steel and others.

Mr. MacDonell: Fish, cement.

Mr. Taylor: Yes. So when you start writing cheques, that becomes very real in my mind. There must be another side to that coin. It is speculative. Is there special dispensation for Canada because it is a large trading partner with the United States? Are we caught in the net and are we supposed to slip through the net because we are small, friendly and speak English or whatever?

Mr. Brandt: Nice guys.

12:10 p.m.

Mr. Taylor: We are speculating, on the one hand. On the other hand, we are projecting that if certain things happen, presumably then we have industries that are sensitive and jobs could be in jeopardy. Again, that to me is speculation. It may not be based on good information. It is not that it may not come true, but at the same time, both scenarios are speculative in nature. I was looking for something on the other side. I do not know whether you have it or not.

Mr. Barrows: When we analyse the data in the highly sensitive sectors, these numbers show limited capacity for export growth and have experienced severe import constraints. We have not had many trade association briefs prepared to quantify employment

less. For example, the brewers and the Canadian furniture manufacturers both estimate job losses of about 50 per cent of existing employment in those highly sensitive sectors.

Mr. MacDonald: They employ about 16,000 people between them.

Mr. Barrows: At the present time.

Really, what you are saying is there are costs, benefits and risks associated with any course of action. What we are trying to do is give you a profile of the potential risk of job loss associated with an immediate bilateral free trade agreement with the United States. What job loss you would have if you did not have an immediate bilateral free trade agreement with the United States is hard to quantify at this time.

Mr. Taylor: If we do nothing, we may have a shifting scenario as well. Even the brewers are presumably looking for a rationalization of their industry within Canada to put them on a competitive basis outside Canada. One could be a precedent conditional on the other, which presumably could be taken care of if you are talking about negotiations or freer trade in that particular industry.

Mr. MacDonald: Then there is the question of the American dollar. As you saw on the news just recently, there is a move to reduce its value. If the American dollar reduces fairly rapidly vis-a-vis the other currencies and our dollar reduces with it, would members of the Congress then have the same protectionist feelings?

Mr. Taylor: With that scenario, if the differential comes down to 10 or 15 per cent, do you know what the job loss is going to be then? These are situations too. It is a very dynamic world.

Mr. MacDonald: It really calls for a political judgement. You have to weigh the options on a political, judgemental level. I do not think macroeconomic models help you very much. If we are having difficulty now, surely one of the things most important to Ontario is an orderly adjustment to a more competitive situation rather than a precipitous move to increase the enormous adjustment already going on in our society.

Mr. Taylor: Any of these free trade talks are premised really on a phasing-in period, as I understand it. No one has suggested we press a button and tomorrow we have an entirely different picture, whether it is tariffs or nontariff barriers, etc. It strikes me our industry is in a rather precarious position if its dependency is on a differential dollar of 25 or 30 per cent. Maybe that is the big problem. Maybe we should be directing our minds to how to protect ourselves against a more closely matching dollar.

Mr. MacDonald: As David Barrows mentioned earlier, if you are not competitive, all the access in the world will not help

you anyway. The next problem facing the committee is, supposing we do make a deal and the American dollar rises in value and the American competitive position continues to worsen, does that mean Congress will still not insist on more and more protectionist measures? In soft lumber, as I understand it, there is virtually no tariff anyway. There is no tariff there. It is just a case of not wanting our lumber.

Mr. Taylor: You are absolutely right.

Mr. MacDonell: You can see why so many people in the world feel that a GATT arrangement, where countries negotiate agreements that are worldwide and where governments are expected to live up to their commitments, seems to make the most sense for the most people.

Mr. Taylor: Except that self-interest will win out. This whole scenario is taking place within the ambit of GATT--the protectionism, the nontariff barriers, etc.

Mr. MacDonell: It is interesting that the United States is aggressively pursuing another GATT round of negotiations now. It is willing to get into that area quickly and it is pressing the European Community for the negotiations to start.

Mr. Mackenzie: These are just bilateral. We are pretty damn vulnerable if the US then changes its mind and uses adjustments as well. It will hurt us a hell of a lot more than it will the US and much quicker.

Mr. Chairman: Gentlemen, we very much appreciate your taking the time to come back and share with us the continuing work you are doing in this area, concern or problem, I guess we could call it. As you could probably discern, we have wrestled with these questions with a lot of witnesses in the last two and a half months. The enormity of the problem has probably just grown as we have done so.

You have helped us a lot, especially with the relating of various matters to Ontario. Most of the witnesses before us have not been able to do that. We appreciate your doing so and we appreciate the charts and so on. No doubt we will be able to make great use of them in the course of our deliberations.

For your information, tomorrow we will actually be sitting down in camera to begin to flush out our interim report. It is extremely important, in view of the events that are moving swiftly right now, that the administration and the legislators understand one another and know everything that each is doing so we can be of as much assistance to one another as we can.

Mr. MacDonell: Thank you for your remarks. We consider this select committee one of the most important things happening in Canada. Because of the importance of the deliberations of this committee, we will do anything in our power to support with information and facts whatever the committee needs to frame its final report.

The committee recessed at 12:19 p.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

MONDAY, SEPTEMBER 30, 1985

Afternoon sitting



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Witness:

Foley, K. W., President, Urban Transportation Development Corp.

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Monday, September 30, 1985

The committee resumed at 2:10 p.m. in committee room 2.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: This afternoon we have the pleasure of listening to Kirk Foley, president and chief executive officer of the Urban Transportation Development Corp. As I indicated to you, sir, we have heard a lot of good things about what your corporation is doing and I do not think we have heard anything particularly bad.

Mr. Brandt: All good news.

Mr. Chairman: So far it has all been good news. Perhaps you can tell us what you think.

Mr. Foley: Mr. Chairman, I do not think I want to start off by talking about how things have changed, but I thank you for your remarks about those good things.

I have taken the liberty of preparing a presentation, which I believe has been handed out to the committee members.

Mr. Chairman: Yes, it has.

Mr. Foley: What I would like to do, if it is possible and feasible, is to go through that. I am prepared to answer any questions on the way through or at the end, whichever the committee would prefer.

Mr. Chairman: Why do you not just take us through it and we can ask questions afterwards, unless there is some point of clarification.

Mr. Foley: The document is not as ominous as it looks. There is a series of appendices attached to it in which we have tried to present some factual details. I do not intend to go through them all today, but we attempt to put some numbers on the arguments that will be made and to put them into some context. I will refer to them from time to time. Perhaps the best way is just to proceed through the document.

I would like to direct my remarks to three specific areas, starting with a general concern and moving down to the specifics that relate to our own transportation industry.

I will start by suggesting that there is a great deal of consideration in Canada now of the aspects of a trade deal and not enough of what I call the strategic product and innovation policy

differences between Canada and the United States. The product policies I would like to refer to underlie, in my mind, the economies of the United States, Ontario and Canada and they have to form the context for any bilateral trade pact with the US.

I have a couple of side comments here. My concern is that we may be looking at a trade agreement from the perspective of the day after it is signed. It might be useful to take the context further and talk about it in a 10- or 15-year period after that. I suggest that a lot of the work to date has looked at it as a quick fix, that is, something we can move to quickly. I think we have to look past that.

A second side comment at this point is that I am not sure that Ontario and Canada should spend so much time apologizing to the United States for any of our parochial activities. I hope during this presentation to give you the indication that significant parochial activities have been under way on the other side of the border for the last decade and a half and, in fact, perhaps the last 30 to 50 years, which are going to have a strategic effect on whatever bilateral trade pact you enter into. So my first point is that I think we should not worry too much about trade deals and we should think more about strategic products.

The second point I would like to make is that when discussing trade rules a difference should be recognized, and I hope this committee will recognize it, between consumer goods, or what I call private products, and public capital goods. Of particular significance to the second element is the whole issue of declared or undeclared nontariff barriers, public policy expenditure programs, co-operative industry and government relationships, particularly as they apply to product innovation, and the process of government-sponsored product development and product definition. This is particularly important in the United States. We see much of that.

Last, I would like to talk a little bit about how free trade considerations might affect our own industries.

Product concerns: I noted that within your terms of reference the word "trade" or "trading" is used 15 or 16 times and yet the word "product" or "products" is used only three times: once in reference to resource products, a second time in reference to promoting Canadian content in products that are imported into Canada and a third time in reference to providing a wide range of products to Ontario consumers at reasonable prices.

I think products deserve far more attention in this argument and discussion. I would go so far as to state that the first principle of any trade deal has to relate to the products to be traded. I refer to that not just in its present context but in the context of the next 15 to 20 years. I find it difficult to understand how a debate or review of bilateral trade policy can be conducted without understanding the comprehensive product strategies that underlie such trade, and I would like to underline the word "strategies."

It seems to me that before committing ourselves to a regulatory framework for rules of trade, we need to be sure that we have something to trade. We need to be sure that we will have a continuous future flow of products in various stages of maturity that our trading partners will want to buy. The second criterion is that we can sell at an economic advantage.

I believe the anxiety in our position to date with respect to bilateral trade is that we perceive ourselves as the weak sister in any trade deal, especially with the United States. I think that is because we perceive ourselves as having the least to offer in essential and sustainable products.

My own perception of the debate thus far is that the primary Canadian consideration is one of fear. If freer trade does not take place between Canada and the United States, then Canadians will find themselves with a declining economic strength and left out of the world's economic growth opportunities. However, if we do enter into a bilateral trade agreement with the United States we are such a weak economy both in structure and size that we will be swamped and run over by the powerful American economy and left as a depressed region of the North American continental economy.

I think these underlying fears can be dealt with. In my view it does not have to happen that way. However, freer trade, based on marketplace rules, requires a continuously strong product line. It requires resident skill sets necessary to produce these products efficiently and a capital base to obtain the resource inputs on a cost-effective basis. I will contend later in this presentation that I am not sure we have all of those ingredients.

As I say, we as Canadians can do nothing about the size of our current economy, so I think we have to concentrate on the structure. That means we have to protect our ability to create competitive products on a continuous basis.

If you or the federal government begin the process of free trade negotiations without any clear concept of what the product strategy should be and if we do not attend to our weaknesses in this area, then free market conditions are likely to confirm us to be the weaker partner. I would like to say a little more about that in a few minutes.

My first concern is that while Canada and Ontario engage themselves in both the debate and the active negotiating of a bilateral trade agreement with the United States, we focus on Canada's products and product development processes--I would like to emphasize the words "product development processes"--to ensure that during these negotiations we protect our very limited capabilities to generate new products. I suspect that without these new products we will be left as a resource process supplier for a continental economy.

This may sound like a revisitation of the old, industrial strategy debate and, if so, it is only because I still believe that Canadians at both the government and industry level have yet to deal with this issue of a strategic product line.

Free trade could simply become a surrogate for our inability to pick winners and losers. In other words, let us allow the market, in this continental sense, to pick the winners and losers. We may not like the answers.

As we move along, I would like to talk about how we get our products and what they are. Later on I am going to talk a little about what business I think Canada is in and show you a little bit of what I think our structure is.

If I skip the next paragraph, it then leads me to the fact that I am not talking about an advocacy of planned industrial structure; however, I think we should make a statement that governments can and do play a very significant role in the management of what I call the innovation climate in both Canada and the United States. It is in this area that I think we have a real statement to make to the US government.

They have taken the lead in the last 30 years; they have had an enormous role in what I call the innovation climate. In Canada we have not had such activity at the government level. If a free trade agreement or a bilateral negotiation constrains Canadian government's roles in product innovation, then our capital base, product inventory and research and development capabilities compared to those of the United States are such that we are likely to be the continual losers from such an agreement. One of the important things we have to recognize is we are not equally capable of product innovation with the United States.

There are significant differences in the product inventories between Canada and the United States. I think it is important for this committee and for the federal government to recognize that our inventories of products in the two countries are not equal. We do not start from the same spot. This product inventory sets the context for any bilateral trade agreement, especially since we do not have the same climate in both countries for product innovation.

2:20 p.m.

I will now talk about public policy expenditures because these, in many ways, dictate the structure and scale of product innovation in the US market. They also determine the form of commercialization of these products and the strength of the corporate groups that maintain this overwhelming government-industry interface, particularly in the United States.

As I said earlier, this is not a recent phenomenon. The US government has been at this for almost half a century. The significance for bilateral trade lies in this inventory of skills and product knowledge that has been produced by public procurement activity in the United States. The US government has provided a direct financial-commercial benefit to its private sector by becoming one of the largest purchasers in the world of research and development for product development and innovation. This is not something that happens in the consumer market; this happens in a public policy process.

US public policy in all its manifestations--that is, in all its expenditure programs and its legislative activities, particularly its educational spending, military spending, technology promotion, research spending, taxation programs, trade linkages and public policies towards investment and capital markets--provides for a significant product innovation climate that is directed towards its private sector corporations and its large-scale government institutions. It is these differences between Canada and the United States in social and economic organization that I believe cannot be ignored in the consideration of free trade.

Canada, by contrast, has in the last 30 years pursued social policies in which personal support programs were emphasized--that is, our social safety net. US government policies have emphasized, particularly in the last decade, programs directed towards corporate and product support. It should not surprise us then that after half a century of this kind of activity the United States product inventory significantly exceeds ours.

If we examine the scale of US government support to product development, we will have some understanding of the difficulties of future competition in this field. We can gain some understanding of why the upcoming Canada-US trade negotiations must recognize one of these two outcomes:

We have to go in and have some agreement in which Canada and its public policy freedoms towards product innovation and support programs can be protected and preserved. If we give those away, I believe we will be in real trouble.

If we cannot achieve that, then we need some form of joint product innovation program, such as the previous defence industries production sharing agreement, which has been in place for some decades, or perhaps the auto pact. But these must be incorporated into the agreement, and perhaps it has to be done by industry sector.

I present a number of pages to follow. I am not going to go through them all, but I would like to ask the committee to concentrate on the underlined sections. They are drawn from the 1984 US budget, and I think they set out some of the scale of the activity by the US federal government.

One of the important things you should recognize is that within the United States the federal government funds about half the nation's total research and development capacity, including 70 per cent of all the basic research undertaken in the country.

On the top of page 8, there is a set of figures I would like to refer to later. They talk about what the US Department of Transportation has done in the mass transit industry. As you can see in the underlined sections, it talks about this budget being available for demonstration of innovative management techniques, advanced technologies, managerial training and university research.

About 10 per cent of that budget in 1984 and 1985 is for research and development, which runs at about \$400 million per year. That is not a particularly significant expenditure on the US government's side. Because of its smallness in relation to other expenditures in the United States government, it has allowed the Canadian industry to penetrate a market. It has not been a priority market or activity of the US government.

But if you go to section B on page 8 you will see that the total US government federal research and development programs and support for basic research run at about \$46 billion per year. This is not consumption; this is investment. This is the US government creating products. Whether they be military or commercial products, they are investing in product innovation. The three-year total since 1982 adds up to \$124.6 billion. That is equivalent to all the expenditures of the government of Canada in one year.

It is not surprising then that a phenomenal supply of products is being developed in the United States. If you look at the support underneath that just for basic research in physical and engineering sciences and life and other sciences, they are spending \$3.8 billion and \$2.7 billion.

Mr. Brandt: May I interject? Of the \$124 billion, which is a very significant figure, can you indicate how much of that, or do you know how much of that, is directed towards military or defence research?

Mr. Foley: That comes on the next page. It shows about 65 per cent of it, or \$30 billion, is in defence activities.

What I would like to do is to concentrate your interest in those underlined sections where it says the federal government funds about half the nation's research and development. Six federal departments and agencies, the departments of defence and environment, the National Aeronautics and Space Administration and so on, provide over 95 per cent of the total federal funds for research and development and for basic research. The next item notes that 65 per cent, or \$30 billion, is defence research.

However, let us go another step. Look at the line right underneath that. Here is the United States administration recognizing that in addition to direct funding of R and D, it encourages private investment in R and D through tax incentives, patent policies, antitrust policies and regulatory relief.

Flipping over the page, you see some other declarations of the United States administration in the underlined sections. "The significant increase in support of basic research, largely at academic institutions and particularly in physical and engineering sciences, reflects the administration's view that such support is vital to the long-term economic growth, particularly in high-technology industries."

Going along to the next section: "...thus providing the foundation for technological advancement of the nation, the federal government supports basic research, not only to meet

agency mission needs"--that is, not only for the direct use of those agencies--"but also in the broad national interest because the private sector does not have sufficient economic incentives to make adequate investments."

It would seem to me that is a declaration of the United States administration that it is, in effect, directing a product innovation process in direct support of the private sector through public policy.

Later, on the third or fourth line down in the underlined section, it says they will conduct basic research "by encouraging greater and more creative interaction among university, government and industry scientists."

Farther down, it says, "Tax incentives, reductions in the burden of regulations and other economic measures of the administration are designed to encourage increased private investment in R and D."

The effects of these changes in its budget will be government-wide support of basic research, which will grow in real terms by more than four per cent in 1984 and will further strengthen the foundation for long-term technological advancement and economic growth.

The next page talks about the National Science Foundation, a creature of the United States federal government which spends roughly \$1.3 billion per year. It is receiving an 18 per cent increase, from \$1.1 billion to \$1.3 billion. The 1984 program includes "an 18 per cent increase in support for the conduct of basic research, with special emphasis on physical sciences and engineering sciences such as materials, physics, mathematics, electrical, computer and chemical engineering."

Flipping through the next page, you see the energy research and development programs. At the bottom of the page, this program spends somewhere around a billion dollars per year. It says, "Federal support should continue and be increased for a balanced program of long-term research focused on areas where the private sector has little incentive to invest because the risks and payoffs are either too long range or uncertain or the benefits cannot be captured by the private investors."

Moving on to the next page, the National Aeronautics and Space Administration spends about \$6 billion a year. They underline this: "The budget proposes a joint industry/government cost-shared development of an advanced communication technology satellite."

In the last underlined section, it says, "Examples of increased R and D activities include the advanced composite materials for large aircraft structures, large computer-based aerodynamic simulation capability and advanced rotorcraft or helicopter technology."

Going over to the rationale for NASA's administration expenditures, you see some underlined sections on page 14. It says, "The advanced communication technology satellite development project will permit continued United States leadership in satellite communications technology with federal funding limited to the longer-term, high-risk technology elements."

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For aeronautics research and technology, it refers to the highest priority technology development efforts that are "important for the national security and civil aviation, but unlikely to be financed by industry, would also be supported."

I go over to the next page, the National Science Foundation's budget. "The administration's view is that such support is vital to the long-term economic growth, particularly for the high-technology industries, and, further, that efforts by these agencies and others would help increase the productivity of the nation's research enterprise."

Those are just some excerpts from the 1984 administration's view of why they spend roughly \$50 billion a year on product innovation. It clearly seems that there is a product strategy to excel and to achieve dominant market share, both in the United States and elsewhere, in all of those technology areas.

Mr. Chairman: I am trying to grasp the source of this document.

Mr. Foley: It is the US government's 1984 budget administration submission to Congress.

Mr. Chairman: Similar to our estimates.

Mr. Foley: Yes.

Mr. McFadden: For the 1985 one, do you have any handle on it? Are they showing increases or decreases?

Mr. Foley: As it is submitted, it shows increases in most of these areas, but it is not clear yet, even though we are almost through 1985, how much of the budget survives and how much does not. In a sense it operates on an annual basis, and you find out in 1986 what the budget was for 1985.

We will use 1984 because it was clear how both the Congress and the administration was viewing those expenditures. What that was attempting to show is how we got to a point where I believe we can safely say we do not start from an equal position with a product inventory in a bilateral trade agreement and that the history of the United States has been to support its industries in mammoth ways.

If you ask what has been the effect of this for 50, 30, 10, even for the last five years, if we go to page 16, I have attempted in a very simplistic way--and I recognize it is simplistic--to show you a contrast between the Canadian economy's

and the US economy's industrial structure. What I have done is listed Canada's top 40 industries as listed in the Financial Post 500, and the US top 40 industries as listed in the Fortune 500.

There is a table there on page 16 that shows you what these are. What is surprising to me is that while the US top 40 industries are made up of significantly different commodity and product suppliers, they account for about only \$800-billion worth of total sales. The Canadian top 40 account for about \$200-billion worth of sales. What is clearly illustrated here is that many of the top 40 in both countries are the same companies. While they do not consolidate their income statements in Canada, the energy and automotive companies clearly dominate those. To that effect, they skew the top 40 Canadian companies with a much higher sales activity than would otherwise be the case.

Let us concentrate on what these companies are made up of. We find that if we exclude automobiles and energy, Canada's product line is dominated by a variety of consumer goods, retailers, transportation and public utility companies, whereas the United States product line is dominated by a wide variety of high-technology manufacturing industries, consumer goods, chemicals and computers.

If you look at that makeup in aerospace, chemicals, computer and communication, and electrical equipment, those companies have all been the beneficiaries of that massive public expenditure program that I just outlined by using the 1984 budget of the United States as an example.

Canada's top 40 companies also include eight crown corporations, whereas the US top 40 do not have any government-owned institutions. I believe this is a reflection of both our capital base and the US public policy of providing enormous research and development support for private-sector corporations. It is therefore obvious that our national industrial strengths lie in different sectors and that we risk being locked into resource-dominated product lines unless we take special care to ensure that our ability to use the power of public policy to develop products is not compromised in any free trade agreement.

In my mind, Canada's future economic prospects lie in our ability to mobilize our high-capacity technology and more competitive industries. We must not trade that away. Our major industrials, the energy and the automobile industries, are US owned, and the auto trade pact already defines the trade in the auto sector. What is left to negotiate is freer trade in resources and the need to protect our very limited capacities to develop industrial products.

When the sales of the top 40 US industrials already exceed by six times the total expenditures of the governments of Canada and Ontario combined, Canadians have no option but to be selective in their product-line development choices and strategies. I guess that is where I came in.

While it may sound like the industrial strategy debate again, I do not believe we have a choice. If bilateral trade is

only an excuse to stop us from picking winners and losers, I suggest we have to negotiate some protection for our public policy abilities to choose our product lines. We cannot compete across the whole range of product line, given the rate of technological change and the intensity of global competition.

I read Mr. MacDonnell's first briefing to this committee and it was my view the committee was impressed by the rate of change things have undertaken in the past 10 years. I think a number of your members talked about the whole order changing. It would seem to me that if in that whole order changing we try to be everything to everyone, we will not make it. Therefore, perhaps selection becomes more important rather than less important, given bilateral trade negotiations.

If we compare our own public policies towards providing a climate for innovation in the private sector, we find in Canada significant ideological barriers to government support for the private sector in contrast with very pragmatic industry- and corporate-building policies in the United States.

As an aside, it is clear to me that if in the United States the government had entered into a program such as building and sponsoring short-takeoff-and-landing aircraft or business jets, as Canada did with Canadair, it would have never promoted a program of forcing two companies into a mammoth debt position to be written off against commercial sales. They would have provided significant military contracts for the design and development, would have written them off against the US budget and the company would have had a fee-for-service contract by which it would have increased its capital base by writing up those sales as profits.

In Canada, we have generated a process by which we believe that much of this activity now is subsidy, where we generate what we might call intelligence or intellectual losers by the way we finance product development and product innovation. I suggest that McDonnell Douglas, Boeing and others, who may well be purchasers of our two companies, have obtained significant parts of the profits that would go into buying those corporations from US government procurement policies in both an aerospace and military context.

When the National Aeronautics and Space Administration decided to go to the moon in the 1960s, one of the results was a tremendous demand for the development of computers and computer-based products in the private sector, a demand created and financed by public policy, not by the consumer marketplace. However, it was supplied by the private sector, I might add at significant enhancement of the balance sheets.

I think we all understand that similar kinds of benefits flow to the US aviation, computer and engineering industries from the US defence establishments and their development programs. I am not advocating a defence product line for Canadian public policy, but I am advocating the need to recognize the requirement for strategic public policy product goals and investment in sectors where Canadians can demonstrate superior economic and technological capabilities.

Without such public policy initiatives in Canada, even at our greatly reduced size and scale, it would seem to me that free trade between Canada and the United States involves only resource agreements for energy, raw materials and foodstuffs, perhaps with some specific additional pact relating to upgrading the automotive agreement.

Without understanding the product lines of each country or recognizing that significant product inventory developments do not always emanate from or have their genesis in consumer market operations, it is impossible to define what a general trade pact between Canada and the United States should look like or how one would determine its impact on future Canadian economic activity.

It is my expectation, however, that after a short-term adjustment resulting from a completely open-ended free trade agreement, we would have difficulty maintaining a product profile or a significant product development capability independent of US public policy, unless such a prospect was specifically included in a free trade bilateral agreement.

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There are three critical issues you should think about. What products will we have to trade and, more importantly perhaps, who are the players in the trade agreement that will set the future product lines? It is not clear to me it is going to be the corporate groups in the two economies that will set the future product lines. Will it be individual consumer action, or will it be the large corporations or institutional and government bodies exercising their procurement decisions that will define and control the product innovation process within continental North America?

Finally, how will public policy as established by governmental institutions, particularly those in Canada, be allowed to affect the distribution of expenditures and the procurements in the marketplace if our Canadian governments are in a competition with the US governments for product innovation. Given the size of the budgets I have just talked about, I think we would lose.

Each of these questions is complex. However, I would like to suggest that the rules for public procurement, that is items bought and sold by public agencies, or purchases controlled by public agencies, including our product specifications--I would like to say more about that later--will produce contentious public policy issues on both sides of the border. It is not clear how a bilateral trade agreements sorts those issues out.

For instance, minority business rules and regulations, national security, long-established government-industry relationships, including those relationships among industry, universities and the educational institutions, will impact greatly on any US-Canada trade agreement in so far as it relates to product innovation.

As an example, it is not clear to me that Canadian

enterprises can effectively compete for the replacement of the US air navigation system which will serve all airports. What this committee might be interested in knowing is that there are a number of proposals to replace the entire navigational system in all airports in the United States. This looks to be about a \$6-billion to a \$7-billion purchase.

Particularly as this must interface with the military control system and therefore could be claimed to be a strategic purchase, this purchase will be worth several billion dollars. If the US government agencies sponsor this work, it is clear that the size and scale of the procurement will produce significant product innovation which will be used by American corporations to compete on a world-scale basis, including I submit Canadian end uses when we go to replace our air navigational system.

Can Canadian companies effectively compete for US military business and perhaps other public procurement programs when much of it must, by its nature, relate to United States national security issues? I believe the same reservations apply to the space administration programs and perhaps more mundanely the Coast Guard and dozens of other operations, agencies of the US or state governments.

On the other hand, I think experience shows us there is no doubt about the ability of US companies to compete in the Canadian government procurement markets, even in our defence markets. I would not be at all surprised if, when we replace our air navigational system, it will be a US product that we purchase.

There is no corresponding size or skill of marketplace in Canada. Therefore, in so far as the public policy aspects of these expenditures create new groups of products and new innovations, it is highly likely that US sources will dominate all product creation in these marketplaces. Thus a generalized trade agreement that does not recognize the difference in product inventories and product strategies of the two countries, and the ability for equal product innovation and creation, is going to serve Canadian industries poorly.

This will be the case, and I think this is important as you discuss free trade, for all products with the exception of products I call nondifferentiated or low-knowledge-based products such as energy--natural gas is natural gas, crude oil is crude oil, steel is steel, and so on--and some agricultural products.

I submit to you that is why politically in this country, regions within Canada that have largely nondifferentiated products have the least to fear from bilateral trade and therefore they are most supportive. Negotiating this agreement to preserve this kind of product creation and product innovation process is going to require enormous talent and foresight. The committee might look at the examination of bilateral trade and structure it on three bases: perhaps an agreement that relates to nondifferentiated product segments; perhaps a different form of agreement that would relate to those highly differentiated product segments; and a different structure that might relate to public procurement product segments.

The rules might be different in each segment, the time phasing might be different, and there may be products to which these rules would be exempted.

Let me now go to the second point: governments as customers. I have just indicated that I believe governments vastly influence and affect the suppliers, who they are and what products they have. But governments are customers and it is important in the free trade debate that the difference between consumer goods and goods bought by governments be understood.

When we speak ideologically, as we so often do in Canada, about the importance of market-driven policies for the economy, we generally refer to--even though we do not always recognise it--personal consumer products which are sold to millions of individual buyers and where the tariffs have been applied historically to control the penetration of different sellers to these buyers. That kind of market is a very different market from the one in which I operate, in which governments purchase large-scale goods on behalf of their constituents.

In this market, the governments who are the customers control the product development and the product definition. It is important to understand that governments are controlling the product definition by process of policy. As I demonstrated earlier, they control even the size of the market by public policy.

The rules of trade, whether they are declared or undeclared, in public capital goods that governments purchase will have a major impact on our ability in Canada to create products. This kind of purchasing applies not only to public transportation, which I know something about, but education, communications, water supply, health services, energy systems and wherever collective buying on behalf of individuals occurs. It is clear in the United States that much of this occurs by private corporations operating under government contract.

The rules of trade in this marketplace are now tilted very much in favour of the US, whose governments and industries have long understood the importance of government-industry co-operation in product development and innovation. But the next item is equally important; that is, they declare the product specification. They actually define the design considerations.

The combination of US research and development and the exercise of these public procurement policies has defined most North America capital goods product specifications. It is very difficult for a Canadian company to define a product specification over and above the US government's product specification processes.

The magnitude of the US market, just its size and scale, compared to the Canadian public market, means that Canadian industry must by virtue of economic reality design and produce its product to meet that marketplace and its specifications. I will give you an example that is close to home. We are currently redesigning most of our public transit products to be built with stainless steel, primarily because the National Fire and Safety Code Administration in the United States has come out with a set

of performance specifications that would make it almost impossible to sell rail transit cars using aluminum.

That specification will mean virtually total readjustment in the North American industry and force us into a stainless steel conversion; not so much because Canadians require a stainless steel product or that there is a general acceptance of these regulations, but simply because they will become the accepted practice in the United States and we cannot afford as producers to have two different design criteria, one outside of the US market.

2:50 p.m.

Furthermore, there is considerable evidence that public policy in the United States determines the organizational structure of the marketplace. Examples of US local preference rules and regulations that control the structure of urban transportation industry in the United States are provided in some appendices.

I would like you to flip to appendix D. On the second page, under (c), the fourth line, it states, "The Port Authority of New York invites us to submit a combined proposal for," and under (c) it states, "the manufacture of these cars within the port district," then further down it says, "or in a newly established plant within the port district; 60 per cent of the new car shells must be fabricated in the port district and no more than five cars may be totally assembled outside the port district."

Clearly, any Canadian firms which bid--we did bid this job--took exception to that requirement and lost it. It is clear that the US local preferences operating at a local level by the port authority have defined that the assembly and fabrication process of that product must take place within 25 miles of the Statue of Liberty.

The minority business rules are set out in appendix B. The buy America components are set out in the final assembly rules in appendix C. I will come back to those a little later.

When a US government, local, state or federal, writes a specification for a \$1-billion transit system, for example, it defines who can participate and who is excluded in that supply. When the US federal government in 1980 decided that public transit investment was a good place to start budget cutting, as Reagan did in his no-new-starts policy, it redefined the entire market for new transit system suppliers. When the US government set a requirement for 50 per cent US content in any transit equipment supplied to American cities which use federal funds for purchasing, that forced foreign suppliers of vehicles to use American sources for major components.

I would like to take you to appendix E and show you the net effect of that. If you flip through those three pages which set out the history of all bids in the urban transportation marketplace since 1970, you will see that the fourth column gives a list of winners. In the first two pages you see that American suppliers dominated the market until about 1976. What is more

important is to watch what is happening in the far right-hand column, the country of origin of propulsion suppliers. Those are all American suppliers, General Electric and Westinghouse.

As you flip over the page, you will see that foreign suppliers got a greater penetration into the US market on the vehicles and the assembly of those vehicles. Lo and behold, because of the 50 per cent buy America content rule, the propulsion suppliers stayed exactly the same. The highly valued high-technology goods in US transit markets are all supplied under the 50 per cent content rule.

Subsequent to the erosion of the US supplier's position as a prime contractor--that is, the country of the winner; as you see from 1976 on, Canada, Germany and Italy took on more of that market--the US government then introduced final assembly criteria which said that not only will you have 50 per cent of your product produced or purchased in the United States, which protects the electrical suppliers, but you will now final-assemble your vehicle in the United States.

That has increased costs significantly to Canadian and foreign manufacturers. They have to split their plants into two parts, one which does the primary assembly and another that does the final assembly.

I am going back now to page 23, the last paragraph. The results of these product preferences is to produce a North American transit market which is almost totally dominated by US propulsion suppliers. An examination of the history of urban transit bid tenders shows that despite an increasing success rate by foreign transit suppliers, particularly from lower-wage countries--that includes Canada if we look at our balanced wage rate, given the effect of our currency--in supplying these transit vehicles, the US propulsion suppliers have preserved their markets as a result of selective product and procurement preferences established by the US government.

Canada, and particularly Ontario, ought to have no embarrassment concerning our procurement practices in this field in so far as North American trade is concerned. This brings me to the detailed statements on impact on the transportation industries; that is, the potential impact of wide open free trade rules on the commercial viability and product development base of the public transportation supply industry in Canada.

Canadian public transit policy has been strongly supportive of and co-operative with the public transit industry since the 1970s. Such a policy has enabled our industry to grow from a basic rail technology, which was imported into Canada in 1954 for the Toronto subway--the cars were made in England, and the Montreal subway in the 1960s was French technology--into a major market and even the dominant supplier in the United States today.

Appendix H shows that in the 15 years since 1970, Canadian rail transit suppliers have taken 56 per cent of the \$1.8-billion market for equipment and systems in which we have participated. Where we did not win, we have demonstrated a capability to be well within 10 per cent of the winning bid on seven of 13 occasions.

During this period, these same bids were subjected to the 50 per cent buy America content and the final assembly requirements of the US governments as well as the very substantial requirements for minority business enterprise participation and local preference requirements.

For example, in our Boston bid, we supply about 20 per cent of that contract to minority businesses in the United States. In Detroit, 26 per cent of the total contract must go to minority businesses in the United States. In the Santa Clara, California, area, our contract requires in excess of 15 per cent of that contract to be given to minority businesses within the area.

Mr. Ferraro: Are these arbitrary figures they come up with?

Mr. Foley: They are selected. They are arbitrary at a point, but they are written into the contracts.

Mr. Ferraro: Are they selected for the region?

Mr. Foley: Yes. As the procurements are being ratified by local councils or funds are being voted on by local agencies, it is at that point the minority business community injects through its lobby processes what targets or goals will be written into the contracts.

Mr. Ferraro: I was wondering how they determined it: on the basis of foreign exchange, lobbying or a combination.

Mr. Foley: It depends on how strong the lobby is in the local area.

Mr. Taylor: You do not have any Canadian comparables, do you?

Mr. Foley: Do you mean of minority businesses?

Mr. Taylor: No. I am thinking of the general thrust of--

Mr. Foley: Not in this area.

Mr. Taylor: I was thinking of the frigates and--

Mr. Foley: We have offset agreements which say that--

Mr. Taylor: --and the way the contracts are written too; you are penalized if you go outside a certain radius of Montreal or whatever.

Mr. Foley: No. I have never seen anything such as "25 miles from the Statue of the Liberty" written into a contract.

Mr. Taylor: No. We do not have a Statue of Liberty here.

Mr. Foley: Or the Brock monument.

Mr. Taylor: We have something as significant.

Mr. Foley: I include the statement that we are optimistic about our ability to compete in this market, which we forecast to be \$5.1 billion in purchases over the next five years. I show that in appendix G. However, we need to continue to improve our competitiveness in product and production processes to retain our market share.

The US market is the largest single marketplace for rail transit in the world today, but it will be superseded by growth in the Third World. During the next 15 years, the US market is vital to us and any company that aspires to be a world-class supplier of transportation systems. Our goal is to expand our business on a world-scale basis, and our immediate objective is to enhance our competitive ability to supply the US market.

Because governments are always our customers, the public funds spent will demand a high proportion of domestic contribution to the purchased product, whether it is in the United States, Brazil, Japan, or Canada. At the public level in Canada there are significant provincial procurement preferences. I suspect this committee has already been subjected to some consideration about what we do about Canadian provincial and national preferences.

As I stated, there are many nontariff barriers relating to minority businesses, local assembly and buy America product preferences. It would seem that on a national scale at least we do not need to go into any bilateral trade negotiations apologizing for our parochial or product preferences. All these issues present major difficulties in arriving at a completely free trade flow in this industry. In these product areas, perhaps the objective should be more limited to reductions in the nontariff barriers without the elimination of them all.

3 p.m.

I have some specific suggestions with regard to the free trade agreement.

In the United States, the primary interest has been to protect the high-valued electric and electronic component suppliers; hence the 50 per cent domestic US content requirement. We do not have such an industry in this country. Therefore, under liberalized free trade, it could be of significant benefit if the US final assembly requirements were eliminated in total and the 50 per cent content rules reduced to approximately 35 per cent for Canadian suppliers.

A similar preference rule could be applied in Canada for US suppliers wanting to enter this market; that is, there could be a general reduction, getting rid of final assembly operations but recognizing that there may have to be some protection for US propulsion suppliers.

In return for maintaining minority business enterprise regulations inherent in the US procurements, Canada should be allowed to maintain significant elements of its regional and provincial industrial development programs and continue significant product development programs in this field.

I believe there is marketplace evidence today that the Ontario-government-driven, product-oriented industrial strategy based on urban transit products has worked in Canada and Ontario. Public policy in Canada at the national and provincial levels has had a strong focus on this product innovation and this industry. It has led to an increasing international market share, particularly in the United States; we have 56 per cent of that market.

What is particularly noteworthy is that this market share has been gained at the expense of both the US and offshore suppliers. US public policy in this product area has been neutral or negative. However, had the US government had as equally forceful a product policy as it does with aerospace and computer industries, it is my guess that Canada's product innovation programs would not have succeeded as greatly.

Appendix A provides a recent report on UTDC's job creation results based on its current order book. It shows the creation of about 6,000 jobs in the past four to five years in Canada because of this industrial program created specifically by the federal and Ontario governments. It is clear that these jobs have been obtained by two interactive processes: (1) a proactive product development strategy by Canadian governments and (2) a procurement preference policy that provided a base business in Canada that allowed the industry to be competitive in the US market.

It seems to me therefore that any bilateral trade agreement must have some element in which this product support strategy at the public level is given recognition, and such policy instruments must be allowed to work.

I have read that much of the US congressional and local protectionist pressures claim that such public expenditures in product innovation constitute subsidies and unfair trade practices. However, it must be recognized in any bilateral agreement that public policies inherent in Canadian product development strategies and our own government procurement preferences are similar if not identical to those evident in the United States towards institutions such as the National Aeronautics and Space Administration, the military and quasi-military agencies, public research agencies and state and local governments' economic and product development strategies.

We must seek an agreement that these practices are not necessarily unfair trade practices. If such items are deemed to be unfair trade practices, then the entire product strategy related to enhancing the urban transportation industry, both in Canada and the United States, will likely violate such a trade agreement. These policies have resulted in Ontario and Canada gaining a significant and perhaps disproportionate share of the public transportation marketplace.

I will end by suggesting that if the only thing liberalized free trade offers is a guarantee of overwhelming competition, it does not serve our interest. If it provides for a strengthening of our product development and our ability to create large-scale industries that can operate on an assured North American basis, it

does serve our interest. A free trade policy which ensures more rapid industrial adjustment of uncompetitive industries through its guarantee of competition must be balanced by considerations which ensure greater opportunity for industrial innovation.

Mr. Chairman: We know where you stand.

Mr. Brandt: The approach you are proposing, as I read it in your brief and as you articulated it during your presentation, appears to be one that favours a sectoral approach, specifically pointing out the industry of concern to you, the transportation industry, and the transit field in particular.

From comments we have read and from statements made by some US politicians, we have been led to believe that they do not favour a sectoral approach but are looking more at a comprehensive global agreement that would cover all sectors. Have you any indication that a sectoral approach might work? If so, what would give you any reason to have confidence in proceeding in that direction?

Mr. Foley: Every time I hear about a sectoral approach, I hear about individual product categories. On page 21 of the brief, I have taken this into consideration in that I believe there needs to be a comprehensive free trade agreement, but "comprehensive" does not have to disregard the fact that the product lines of our countries can be categorized in a multifaceted way. As I have suggested, there is a nondifferentiated product area; it largely happens to be made up of resource, energy and agricultural products. Then the marketplaces operate differently.

A second segment could be what I call the highly differentiated products; that is, high-technology and manufactured goods. However, there would not necessarily be segments called aerospace, transportation, machine tools and so on. The third segment would be what is inherent in the public procurement processes.

What I think you are talking about is that these relate to different marketplaces, different ways in which the markets operate and innovation takes place and how institutions operate, such as governments, research agencies and corporations. An act in Congress, from where I see it operate, might buy such an approach whereas it would not particularly buy one dealing with lumber separate from mineral or transportation products.

Mr. Brandt: I gather that if your industry were limited to a domestic market of, say, 25 million, just Canada, it would change very radically the approach you use in marketing the UTDC. Perhaps you could respond as to whether UTDC could even survive if it were not an exporting company.

Mr. Foley: I would think it should collapse under those circumstances, because all you would be doing is changing pockets. If the governments of Canada were the only purchasers, it would seem to me you would have to own the industry. Perhaps you would want to enter into some sort of long-term contract with private

sector people to do the manufacturing. However, I see no reason why a company ought to exist if its sole market is Canadian governments.

Mr. Brandt: Is that true of any company or just yours?

Mr. Foley: I do not recognize that there are many marketplace characteristics if I come down here and negotiate a price with the minister and then go to Thunder Bay or Kingston and build it, when the design, fabrication processes and everything else is being controlled by the government.

Mr. Taylor: Where you go depends on how many jobs are needed in Thunder Bay or Kingston.

Mr. Foley: Exactly. It would be difficult to negotiate wage agreements under those circumstances. It seems to me you have a similar situation to that of the post office under the criteria that you are not exporting, that no profit test is ever applied and that product prices are to be optimized or minimized. In a sense you are simply nationalizing the industry.

Mr. Brandt: Maybe I did not ask my question as clearly as I had intended.

Mr. Mackenzie: I liked the answer.

Mr. Brandt: You can have a supplementary. Let me ask a series of short questions. Is a market of 25 million a viable one for a transit manufacturing system such as yours?

Mr. Foley: Yes. I would think the size of the Canadian market could produce a viable plant capacity that would be commercially self-sustaining. It would not spend very much money in product development. It would have to be highly organized in a sense. The problem with the figure of 25 million is that you have to think about cities. There are only about four markets in Canada. There is a small market in Edmonton and Calgary. There is one in British Columbia, and there are ones in Toronto and Montreal. If each market were properly organized and came to you, you could sustain the plant, but it would be difficult and perhaps would produce marginal profits.

3:10 p.m.

Mr. Brandt: Again I am looking at the downside of any protectionist policy that may intensify in the United States. It is already a serious problem. You were not here this morning, but I raised the very question of your industry having difficulty in penetrating certain markets because of preferential buying policies in the United States.

Would an industry be able to survive such as would be envisaged under a totally domestic situation where all the sales were made in Canada with no exports? You indicated it would not be able to get into research and development in any significant fashion. Would it be able to survive intensive world competition without protectionist barriers?

Mr. Foley: Would the Japanese be able to underprice us in our domestic market?

Mr. Brandt: Ultimately; perhaps not in the first year or the fifth year, but by the end of the decade or whatever.

Mr. Foley: There is no doubt that with such a limited market--you cannot not do product design. You would have to spend some money doing it. The margins would probably be so low you would end up doing one of two things: either running your plant down and into the ground, which is a short-term policy, or by putting so much pressure on labour unions and wages that you could not sustain the labour skills you want in the industry. I would say that is fundamentally a going-out-of-business strategy.

Mr. Brandt: I came rather circuitously to what I am trying to arrive at, but I think I have the answer to my question in that last sentence. I was trying to find out whether your industry could survive without exporting in the fashion in which we understand it to be doing at the moment, without the intensive research and development, without the rather aggressive marketing and other activities you have been carrying on, with some substantial degree of success recently. You are saying that, because of the world market, in all probability you could not survive if you did not export.

Mr. Foley: I do not think we could survive nor do I think it would be worth the risks governments have to take, whether they support the industry as they might with the Bombardier program or whether they own the company as they do with us. We would not survive without some export traffic. I can give you a perfect example.

We have two orders at Thunder Bay that relate to domestic production in Toronto and we have two other orders, one in Boston and one in California. Any two orders by themselves would not make that facility viable. Add all four together and one can produce at a profit and a price that is attractive to all four customers.

If we were stuck operating to supply only the Toronto market, the goods would be higher cost and there would be virtually no profits in it. By having that domestic base, we are able to provide attractive prices because our economies of scale are such that we can spread our fixed and overhead costs and our product design costs into a bigger marketplace. If that bigger marketplace were not there, there would be only two choices: go out of business or increase domestic prices on some kind of protected basis.

Mr. Brandt: It is fair to say that if there is to be any change in our trading relationship, particularly with the United States, but with other parts of the world as well, we should take into account the protection of such industries as yours that require trade enhancement or freer trade. I am saying that for the benefit of my colleague at the rear. We require trade enhancement or some form of policy that would allow you to continue to penetrate those markets by some form of bilateral or multilateral agreement with other trading partners. That would appear to be critical in your industry.

Mr. Foley: It is critical. I have some difficulty with the way in which we label these words in Canada. If I go down and talk to the United States administration, it would not use them that way. They would say: "We need to stimulate a communications technology program. What we have to do is use the Department of Defence or the National Aeronautics and Space Administration and create a major program to stimulate this technology and put it into practice. Maybe we will even be the front end. We will put the satellites up first and rent them to various people," and so on.

They do not call that a subsidy at all. They call that technology promotion or industrial promotion and development. They do it through the private sector. Then they would internalize all those sales into their balance sheet. They would come up with an income statement and there would be a company that is a pretty attractive company. In Canada we do the same thing and we say we are subsidizing those companies.

We tend to get down on ourselves by suggesting that we need that kind of a program to support industry in Canada. None of this would be happening in the United States if it did not spend \$50 billion a year doing exactly the same thing, but it does not call it subsidy or industrial support. They just say it is the good American way.

I suggest that the same thing happen here in Canada, if the government of Ontario is going to spend, as it does, \$100 million to \$150 million a year in the procurement of public transit goods, and it decides that it wants to put those out into a process where it supports technological development and product commercialization. In the US these products do not only go into the marketplace in a research sense, but those contracts pay for tooling, for the training of the scientists, the training of the engineers and even the training of the factory workers. They do not call them subsidies. They just call them good old support to the American economy.

If they are spending \$1 billion in a decade and we do the same thing, somehow we are down on ourselves by saying this is a subsidy. I suggest that US companies could not be in the aircraft export business, the communications and satellite development business or the computer businesses if they did not develop the same kind of government support.

In the automotive industry, where there has not been that kind of research and development support, along come the Japanese. Guess who competes with the Americans?

We have the wrong terminology to a great extent. We are very much down on ourselves and we let a lot of people in the US Congress tell us that we are engaging in unfair trade practices when, in fact, they are doing exactly the same thing under a different name.

Mr. Brandt: That is a tremendously interesting point. One of the differences in terminology is that when we enhance the competitive position of a particular company and it happens to be

a crown corporation, they look at that as being a direct kind of involvement in the private sector. What Mr. Foley is saying is that the same thing is done, only using a different mechanism and different terminology. I had not heard it expressed quite as clearly as you have just expressed it, but it is a very good point.

Mr. Foley: Perhaps I can give just one example. The Boeing Corp. got into some difficulties in Boston about four years ago in providing light rail transit vehicles. Boston basically told them to take them back, they did not want them.

Mr. Taylor: So did you.

Mr. Foley: We actually got them in there, much to the chagrin of the labour union.

They told them to take them back and they settled for an \$80-million settlement. Two days later the Boeing Corp. received a \$2-billion program for the MX missile. I look at the balance sheets of those kinds of companies and ask how in the world do you see product innovation taking place in Canada?

If we look at Canadair and de Havilland, had they and those developments been financed under research and development programs, both of those companies now would be star companies and we would be considering them part of our great technological outlook. Instead, we financed them with debt. It would be like the US government lending the money to Boeing to sponsor the MX missile program. When they could not pay off the debt, we called them dogs.

I suggest that what is going on in the US and the way in which they have used their commercial sector have produced this product inventory in which they are vastly ahead of us. We have to be careful when we negotiate that we do not let them tell us, on one hand, these are subsidies because we do it on a debt basis and we use crown corporations or other forms of government sponsorship, when they do exactly the same thing but they hold it up through the equity market to be privately operated.

Mr. Hennessy: Looking at your document, are you saying that we should institute an agreement with the United States but get safeguards with regard to the protection of our plants? What is the bottom line? You have touched all the bases, but I really do not know what direction we are going and what you really mean. We compete against California, but I have to agree with you that if we did not have these foreign contracts, we probably would be in big trouble. We would not have that many people working at the present time.

Are you in favour of trying to arrange some kind of agreement, but we still have to have protection in some areas?

Mr. Foley: I do not like the word "protection," but I do not feel ashamed of asking for my cake and eating it too.

Mr. Hennessy: Safeguards.

3:20 p.m.

Mr. Foley: We need a bilateral trade agreement. It should have three categories: one that deals with resource industries and what I call nondifferentiated products, agriculture, energy, mining, lumber and so on; one that deals with differentiated products, that is, where there is a technological design, where there are manufactured goods; and a third segment that talks about public procurement programs. Therefore, our protection does not have to be with a specific plant or a specific commodity.

However, it does say that when governments in Canada support a product or industry, such as paying for technological development in a new high-speed, commuter rail car using some advanced technologies for profession systems, it is not a subsidy to that industry.

If those things were paid for, our product price would be lower because we would not have to charge it to our customers. We would be much more competitive than we are now. It is not protection; it is simply the operation of the same mechanisms that are used in the United States.

Therefore, when you write your trade agreement, write it such that the rules will be structured in three specific categories. The one that deals with manufactured goods would allow governments in this country to pursue public policies for product innovation.

In the public transit business, 25 per cent of our product costs go to design and development. In the United States, if I build a military airplane and then, lo and behold, the next day that same technology shows up in a commercial airplane, that is not protection and it is not subsidy.

The rules must use the right language. We are all looking for protection. It is not that we are saying: "We are weak sisters and you should help us out," but, "The same rules you use should be applied to us. However, because we use different mechanisms for instituting them, do not call them unfair trade practices, subsidies or protection." Then we will be able to compete with anybody.

Mr. Hennessy: Do you realize that in Thunder Bay there are about 400 people, give or take, working at the present time? If something did happen, that plant could close because it is situated 1,000 miles from Toronto, from the main stream of things.

Mr. Taylor: It should be producing in the Kingston area.

Mr. Hennessy: If I was a Liberal member, I would probably get the order; I just realized that too. I am not that stupid.

Mr. Taylor: You are right in the middle of this one.

Mr. Hennessy: Yes, I am right in the middle of this one. I am a little concerned about that so-called study you are making

in Thunder Bay and so are the people, but this is not the place to bring it up. I am concerned about Thunder Bay because it is far away. If something happens there, they will close the plant, put the lock on it and that will be it. There will be a lot of people out of work. That town has had its ups and downs for many years.

Mr. Taylor: It will keep my constituents working.

Mr. Hennessy: I am not worrying about your constituents.

Mr. Taylor: I know you are not, but we are talking about fair trade here too.

Mr. Hennessy: We have snow up there; you have not got it. You are looking at the area of protecting the plants perhaps in Kingston. Here, to some extent, we are against a big giant and we have to look at some way we can compete with it. Once they open up and get the so-called grants or subsidies they get through the back door, it will make it difficult for us to compete against them. Will we make that a separate segment if we ever sit down to discuss this?

Mr. Foley: There are two or three questions here, and they all get wrapped together. I do not believe that in either Kingston or Thunder Bay, those plants need any specific protection measures. I am quite confident the workers and the engineers in both facilities are capable of competing on an equal basis with anybody, and they have.

Mr. Taylor: Then why do we get involved in social engineering?

Mr. Foley: I am not sure what social engineering goes, but let me answer the second question. I did not want to use this forum, but if we do not deal with an integration program between Kingston and Thunder Bay and continue to provide efficiencies in both sides by reducing overheads, engineering costs and so on, both of them will be out of business.

This process would be the proper rationalization and integration of design, build and marketing activities to make Canadian industry competitive. I am not saying to this committee or to the United States government that we will not take the necessary steps in Canada to be effective and competitive, that we will not put in CAD-CAM designs, that we will not integrate facilities. We will keep both those facilities working; we will keep them both around 500 in Can-Car and around 200 in VentureTrans.

I am saying, though, that if we burden ourselves by saying that the public policy towards innovation and the sponsoring of design and the sponsoring of product development, which costs us about 25 cents on the dollar, is unfair in this country and yet say it is fair to develop it in the United States inside those kinds of products, then we unfairly penalize ourselves going into those marketplaces.

Can-Car and VentureTrans in both those communities have no reason to be fearful of their ability to compete, nor do they have

to go and say to the United States, "We are too far away," or, "We have too small a community." We can compete. Our manufacturers can manufacture as well as theirs. Our workers are as productive. But we cannot then say to ourselves that we are going to load that innovation burden on top in Canada and let it slip out underneath as public policy in the United States.

Mr. Cordiano: I want to point something out with regard to some of the statements you are making. Throughout our discussions in committee hearings, we have often pointed to the expenditures that the United States makes as far as its military budget is concerned, and we have often pointed out that that is what we consider a subsidy and an advantage to its industries.

We have also pointed that out in the course of our discussions with people in Washington, and we were told that perhaps we were not taking advantage of the opportunity that is made available to Canadian companies to compete in the area of military defence production.

Mr. Foley: I think there is some truth to the idea that we could be more aggressive, but I still come back to the example I used. It seems to me unlikely that we could rebuild the United States airport navigational system, because it so connected to their military strategic programs that I cannot see Canadian companies jumping into that marketplace right off the bat.

It is one thing for the US Congress to say: "You are not aggressive enough. You do not come down here and get a small piece of our action." I am arguing that we do not start from the same base. We have a product inventory in this country that is rather limited. Their product inventory is significantly enhanced from ours.

While yes, maybe they should argue that we should be more aggressive, I also argue that any bilateral trade agreement has to take into account the starting positions of the countries, their product inventories and their capacities to create new ones. Any congressman who said to me, "Every Canadian company will have an equal shot at the United States air navigational system," just would not be believable.

Mr. Cordiano: The point is, how do we deal with this \$50-billion expenditure in defence that the United States makes every year? I believe that is the figure we were given. How do we deal with it with respect to all the spinoff benefits that come from it?

Mr. Foley: I do not think a bilateral trade agreement is any way in which we can deal with it; we will never affect the size and scale of the US procurements. But in the bilateral trade agreement I do not think we have to succumb to a series of things that say, "Subordinate your public policy product development areas because they are subsidies."

Mr. Cordiano: I agree with you.

Mr. Foley: I think we simply try to get as much as we can in the US, participating where we can in that market.

I am not against multinational corporations such as Litton operating in Canada, where they try to walk both sides of the border. That is good stuff. But when some congressman then says to you, "You cannot engage in these kinds of practices in Canada because they are unfair trade," I simply say: "No, you are doing it all the time down there, and your companies, like General Motors, can equally come to Canada and engage in the supply of our railroad locomotives; they can come to Canada and engage in the supply of F-18 fighter airplanes, as General Dynamics and McDonnell Douglas did. And yes, we will have some offset agreements from time to time by which we will want you to put some product and some product mandates into Canada. But get rid of the rhetoric that says, 'You guys are all subsidizing your industries because you have product innovation programs in Canada.' You have them equally down there."

Mr. Cordiano: That whole question of military expenditure and the amount of research and development that goes into it comes up over and over again, and you have pointed it out very clearly today. It is something that does not factor into the equation as far as the level playing field is concerned. That has not been brought up yet.

3:30 p.m.

Mr. Foley: I read in the newspaper that Congress is protectionist, it is giving the administration a bad time and the administration has to begin these processes because Congress is going to slap its hands. I guess it is hard in Canada to say that our Parliament will give our executive branch the same kind of difficulties. Because we are so small, I wonder what we are going to shout at the United States. But it does seem to me we can shout back that much of the rhetoric seems to be inflated. It does not seem to me that it becomes an unfair trade practice. Once we get that passed, I think we have to look at an appropriate way to come to some kind of a trade agreement.

I am suggesting there are three separate segments in a trade agreement that could go a long way to maybe even sorting out some of the differences in Canada between regional and central concerns. Perhaps the western and Atlantic provinces are more in favour because of their nondifferentiated product, whereas Ontario has a highly differentiated product. There might be some common ground on which to structure a trade agreement.

Mr. McFadden: I would like to explore a couple of areas. One thing I should say at the outset, though, is I was very impressed with the brief. I think it is safe to say that of all the briefs we have received, this is by far the most detailed and thorough for an industry sector. A lot of the stuff we get is quite general, but this one has tremendous detail. I think that is probably why we are getting down to a lot of details here today.

I wanted to raise a point on government procurement. When we were in Washington, and Mr. Cordiano did allude to this, one of the people who met with us was a lawyer in government procurement. He made two or three observations; his specialty was government

contract litigation and government contracting. First, he said that effectively the teeth of the buy America legislation have pretty well been pulled and it is no longer what it used to be.

Second, he said Canadians have not taken advantage effectively of the number of opportunities they have had in the area of government procurement.

Third, he went on to say that among the people developing specifications and approving standards, they have found that Canadians tend to be very reticent about going down there and lobbying with their standards people. Canadians are well known for not going in to lobby prior to the bids being published. It was interesting that he said our reputation, on the other hand, is excellent in terms of product quality and that, overall, based on his experience with the American General Services Administration and various other government agencies, we stand up very well on procurement.

At the same time, this morning we were informed by the submission of the Ministry of Industry, Trade and Technology that all the various procurement policies, the Buy America Act, small business, minorities, set aside and so on are of very little importance. They represent about one per cent of our trade. I think it is safe to say this whole issue, as they informed us this morning, is effectively a nonissue.

Your brief has made a very strong case going the other way. From the points you are making, are we to understand your concerns about government procurement are mainly related to urban transit problems or are you saying it is an overall concern and, therefore, a matter that concerns a lot of other people? We have now managed to get completely conflicting stories on that point.

Mr. Foley: I do not think they are conflicting as much as they represent different number sets. I think when Industry, Trade and Technology comes in and says it represents one per cent of our trade, you start by saying: "About 85 to 90 per cent of that trade is automotive, and to that extent we already have an integrated market and design process. It is not difficult to see why those standards would be met. Most of the designs are done in Detroit."

There are not many Canadians who have to go down and lobby very much for specifications when the US government standards are all on the airplane between Detroit and Washington.

I would think you have a fairly high percentage of the nonautomotive, nonenergy trade sector, even though that portion may be a relatively small piece of the action because it is not where the trade is now.

It is true that there is not much buy America related to consumer products. The buy America relates totally to public procurement activities. But every time de Havilland wants to sell an airplane, that airplane is certified and must be certified by the Federal Aviation Administration. So the standards are being

set and the certifications are being set at that level to the extent it sells to the US military. I have not noticed major sales of de Havilland's Dash-8, Dash-7, Buffalo and so on to the United States in the same sense you see similar aircraft being built by McDonnell Douglas Corp., Grumman Corp. and so on.

I am not clear that a lot of Americans will not always say to us, "You know you have not been hard enough as salesmen and have not been down arguing enough." I pay a lot of money to have my staff spend most of its time with the customer, arguing about specifications. We went to Boston and finally told them, "We are not going to bid on your job. In fact, we are going to publicly announce to the world two weeks ahead of time we are not going to bid. We know the Japanese will increase their price if we do not bid the job because you will not change the specifications to meet our product. You want us to design our product to meet your specifications and we know that is going to cost us \$10 million to \$12 million and we are never going to sell another of these."

I take a little exception to the easy way Americans at whatever level can say we just have not been aggressive enough. We can always say what we said in Boston. As far as we are concerned, buy America has ample teeth. If we do not sign a buy-America certificate, and I do not personally sign it, and we put in that tender--and a tender can cost us up to \$1 million to bid, which is not surprising because on a \$100-million order, for example, that is about one per cent--we have spent \$1 million before we get there. If we do not sign that buy-America certificate, which is a statutory declaration in a sense, our bid is not even considered.

If we sign it, any of the competitors can then call for an audit and we have to prove, not only after we build it but before we get the contract, that we have arrangements with all the American suppliers to meet the 50 per cent content rule, which means we have to get bids from each of those American suppliers which we can then hand in if someone challenges. In my experience in the last four years, there have been about six challenges.

I do not believe for a moment the Buy-America Act has no teeth. It is true they do not apply to consumer merchandise or the auto trade.

Mr. McFadden: Basically, from our point of view, to protect the UTDC and perhaps other elements of the urban transit industry that might relate to Ontario, we would have to focus on government procurements. There was a tendency this morning to downplay the importance of that. I think what you are saying is, from your point of view, it is obviously of vital importance that be negotiated.

Mr. Foley: I think it applies to all kinds of what I call public capital goods. Some of them are not purchased by governments in the United States; some are purchased by utilities. We have a lot of technology in this country in energy transmission, whether it be hydroelectric energy or gas transmission. All those would be purchased by utilities in the United States, but in effect, they act in the same manner as the government.

In the aviation field, we have a lot of health care services and equipment and technologies. We have a lot of waste and water management technologies that can be sold out of this country, but will almost always be bought by a public agency of some sort or a pseudo-public agency in the United States.

I suggest it is not just in the area of urban transit, but it is any public capital good that largely fits that criterion of very few buyers, dominated by governments through a regulatory process in which they set the specifications. I think most Canadian firms would tell you they have the same problem.

3:40 p.m.

Mr. McFadden: Could I explore one other aspect, which is the size of the urban transit industry to Ontario? UTDC certainly has been the most visible part of that. In fact, General Motors in St. Thomas and Orion buses in Mississauga produce here and employ Canadians. In addition, Bombardier purchases a lot of things in Ontario for its plants in Quebec.

I have two questions. Maybe it is already embedded in your report, but could you tell us roughly the number of employees in Ontario that would relate to urban transit? I know we have your figures, direct and indirect. Do you have a rough industry figure? Would it be double the 6,000 and something? In round figures what would the urban transit industry represent in the manufacture sector?

Mr. Foley: We did an estimate about a year, in September or October 1984, of what the total was to determine what percentage of that we were in. We determined that it was about 10,000 jobs during those years 1983-84. Those may or may not be peak years, depending upon what happens in the future. They certainly were the highest point on the curve to date. That was about 10,000, of which we were about 6,000 of those. In Canada in total it was about 15,000, which included some construction jobs in British Columbia, which again is possibly at a plateau.

My own view is that it does not have to decline. It might but it does not have to. In 1984 Ontario would have had about 10,000 jobs related to public transit sales in Canada, and that was an order book of approximately \$2.4 billion between ourselves and Bombardier, with all of their subcontractors included in this.

Mr. McFadden: What per cent of the sales of those companies would be to the export market? Have you got an estimate on that?

Mr. Foley: About 60 per cent if you include exported out of Canada. If you say exported out of Ontario, then ours would be about 75 per cent outside Ontario. If you go back, you can say 60 per cent of the volume of this business is done outside Canada in the Canadian industry, and about 75 per cent of the Ontario industry is outside of Ontario, but the Ontario jobs are for export outside Ontario.

Mr. McFadden: And of that figure would the majority be in the United States?

Mr. Foley: We are skewed right now in 1983, 1984 and 1985 because of the Vancouver project. It is a big piece. It is about \$850 million of the \$2.4 billion, so it is a third of it. I would say the non-Canadian market right now is virtually all United States, with some very small pieces, maybe \$2 million to \$5 million in 1985, outside the United States. In 1984 there was more. In 1983 there were some sales to Mexico.

Mr. McFadden: One final question. We have also been looking at intraprovincial nontariff barriers, the various procurement policies of various provinces across Canada and how they impinge on various industry sectors. What is your feeling in that regard in relation to our transit industry here in Ontario?

Mr. Foley: A lot of people talk about the preferences and the procurement policies of Ontario and Quebec and they assume that Bombardier cannot sell in Ontario and we cannot sell in Quebec. That is really not an effective statement.

What happens in this business is that your design and the ownership of that design is far more determinant of who is going to get that business at a lower cost or lower price than is the province acting at the governmental level. There are times, however, such as when the streetcars were being built in 1975 here in Ontario, when there was a government preference for where that work should go.

That determined to a very large extent the next order location and future orders location of that specific product. Had that product been subjected to a market test and the low bidder won, that product would have been built in Bombardier and so would have the next orders of the streetcar.

Product preferences or parochial preferences by provincial governments can only operate effectively at specific times and they relate more to design costs and the payment of the first order than they do subsequent orders.

If we were to try to compete with Bombardier on an open market, free price basis for the Montreal subway, we probably could not do it. They have too much design, too much tooling already paid for and it would be too high cost for us to try to do that. So we would not bid it if it came up on the market because we know we could not win it, so why go through the exercise of spending all that money?

We have to be cautious about assuming provincial parochialism when it does not exist. That is not to say it does not apply from time to time, but it is not as pervasive as everybody would assume.

Bombardier would have a very difficult time competing for an H-7 or H-6 Toronto Transit Commission subway car, not because there is any parochial preference, but because it would have to go

through all the design, the tooling and the issues of shop plans and so on to make the product as cheaply as we can. It might be nice to have a runoff every once in a while to keep the prices down, but that is all it would do.

You might suggest when new products come up that there is activity of a parochial nature, but I suspect history has shown that to be the truth. My view of it is that it is not a very healthy activity. However, that is from a straightforward commercial point of view with no responsibility to maintain the job structure.

I am on record as saying I would have provided the streetcar order to Bombardier at the time. My view of how to get around that is not by having the provinces argue it out, but have the federal government take a stronger role in product innovation and development as opposed to forcing that burden on the provincial governments, which by their nature will then try to maintain the benefits from it.

I look at our Urban Transportation Development Corp. and say that if the Ontario government has had to spend \$60 million to \$70 million in building transit technologies, they want the benefits of that. If the federal government had seen that as a national priority, then it is not clear that the provinces would be in a such a position to exercise parochial practices.

Mr. McFadden: Philosophically, you are in favour of Canadian free trade.

Mr. Foley: Exactly.

Mr. McFadden: Across all provincial boundaries, but from time to time public policy intervenes to preserve an industry.

Mr. Foley: Right.

Mr. Ferraro: I am not clear how giving that decision to the federal government would preclude any parochialism on its part.

Mr. Foley: It would be difficult if the design costs inherent in all these orders were a public activity at the federal level.

Mr. Ferraro: Okay. Let us assume you are talking about some new product and there are initial design costs. What you are saying is, do not give it to the provincial governments to argue over; let the federal government do it. Why would the federal government not say, "We are going to give it to Newfoundland because it has the highest unemployment or to Quebec because we have to substantiate our vote there"? Is there any distinction?

Mr. Foley: There may or may not be. It obviously depends on how governments work.

Mr. Ferraro: I am not partisan here, whether it is Conservative, Liberal or NDP.

Mr. Foley: I do not see that the federal government would be less interested in its political activities and benefits than a provincial government would be. If you are going to sponsor, let us say, a \$25 million to \$30 million design process in a product, if the province and its taxpayers take that risk, I see no argument against it enjoying the benefits of that.

If it is the national taxpayer who takes that risk, then I see it is much more difficult for the provinces to say: "We paid all that money and it is our taxpayers who paid that. Why are we not enjoying the jobs?" That is not to say the federal government would not engage in parochial practices in the allocation of that job.

Mr. McGuigan: Suppose we reach that point in your objective, would we not still be faced with the fact that the TTC or Montreal or whoever was involved could write the specifications so that only their own local company could win the contract?

Mr. Foley: That is true. One of the problems with public transit is that the senior governments do the funding and the local governments do the buying. Therefore, you need some discipline in that practice. If the TTC or any public transit agency could specify whatever it wanted regardless of the cost outcome, yes, you could do that. But the Ministry of Transportation and Communications in this province and in Quebec and in most of the US jurisdictions could discipline that activity and simply say, "We are not providing 75 per cent of the capital funding for you to have a custom-made facility."

There are always arguments as to who is the expert in that. That brings about some of the tensions. Who is smarter about specifications, the operator or the designers?

Mr. McGuigan: Is there anything indigenous in a city that it would require vastly different specifications than another city would require?

Mr. Foley: It is not general, but as a salesman I always like to go into a city and tell them that my product is really great and that it meets their criteria and requirements better than anyone else's does. If I can get the first sale, I know I have the next one. Transit contracts are not always contracts; they are careers. If you look at the New York subway system, since the 1950s the design has been virtually the same. Once you build all that infrastructure, the replacement cars have to be the same.

Obviously, when Montreal decided on a rubber tire system, that meant the entire infrastructure had to be covered. There is snow and ice on the climate side. There are gradients to take into consideration. There is station stopping that deals with how much power you have to put into the propulsion and braking systems. However, generally they are not as different as many of the properties want them to be.

The Toronto Transit Commission has a gauge that is different from any other gauge because 75 years ago or whenever it did not

want the railways operating on them., they made a wider gauge and I guess that was followed for every transit product built in Toronto until we did the Scarborough line, when we got back to standard gauge. There are no inherent reasons, but there is a lot of other activity in the product.

Mr. Chairman: Are there any more questions?

Interjection: Are we through for the day?

Mr. Chairman: I think we are.

Mr. Mackenzie: Before we go--

Mr. Chairman: I am sorry.

Mr. McGuigan: I want to make a comment, too. It is not a question, just a comment.

Mr. Chairman: Do you have a question, Mr. Brandt?

Mr. Brandt: I just want to thank Mr. Foley for his presentation. I think it added a considerably new dimension to our discussions. He touched on some areas of specific interest to me and, I am sure, to other committee members. I would like to thank him for the time and preparation that went into the presentation and for adding somewhat to the very difficult problem we are trying to solve at this committee level.

Mr. Chairman: You took the words right out of my mouth, Mr. Brandt.

Mr. Brandt: Then I will withdraw it all.

Mr. Chairman: No, do not withdraw it.

Mr. Brandt: You go ahead and say it.

Mr. Chairman: It has been said. I guess Mr. McFadden said it first. It was very thorough and will be extremely valuable to us.

Mr. Foley: It was our pleasure.

Mr. Chairman: Before the committee members adjourn, there are a few things that some members want to discuss. I wonder whether it would be appropriate to go off Hansard at this time. Does anyone need to say anything on Hansard? No.

The committee continued in camera at 3:54 p.m.

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ONTARIO TRADE REVIEW

WEDNESDAY, OCTOBER 2, 1985

Morning sitting



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LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, October 2, 1985

The committee met at 10:10 a.m. in committee room 2.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: I start this morning's proceedings by pointing out to you that for the first time the press summaries that you receive include an article from an out-of-town newspaper. That was prepared by a researcher. I would suggest that it is entirely coincidental that his name appears in the clipping.

I am told that we got coverage from the Kitchener-Waterloo Record because we were in Kitchener, and we will similarly get coverage from the Sault Ste. Marie Star when that paper arrives.

Mr. Morin-Strom: Slow mail.

Mr. Chairman: This morning we are pleased to have with us the chairperson of the economic committee of the Consumers' Association of Canada (Ontario), Miriam Kramer. We have not particularly looked at consumer issues. We have brushed against them several times, of course. There is a presumption that there would be some early benefits at least, if we were to have an agreement.

We look forward this morning to looking into that possibility in more detail. Mrs. Kramer indicated to me she is prepared to go through her brief with us and then entertain questions thereafter.

CONSUMERS' ASSOCIATION OF CANADA (ONTARIO)

Mrs. Kramer: Yes. Perhaps I should say before I start that if I understood it correctly, the mandate of this committee is a very broad one. The paper which I have is really quite brief, and quite general because I am not an economist. I am the chairperson of a committee that draws upon economists, so I have not presented sophisticated arguments. You probably have heard many of them from all sides before.

Also, I have tried to talk a little bit about how consumers feel about trade in general rather than either Canada-US or Ontario-US trade specifically.

Mr. Ferraro: Might I say that as soon Mrs. Kramer said she was not an economist my ears perked up.

Mr. Chairman: We will probably listen to you much more carefully.

Mrs. Kramer: I am sure you have heard many excellent, intelligent presentations, so I hope this will not be the comic relief.

I thought I should put some material about the Consumers' Association of Canada in this paper. Naturally, we assume we are a household word, but I know very well we are not. I will start with that.

The Consumers' Association of Canada is a voluntary, nonprofit and nongovernmental organization with more than 160,000 members across Canada. More than 50,000 of those members reside in Ontario.

Founded in 1947, the organizations purposes are: to unite the strength of consumers to improve the standards of living in Canadian homes; to study consumer problems and make recommendations for their solution; to bring the views of consumers to the attention of government, trade and industry and to provide a channel from these to the consumer; to obtain and provide for consumers information and counsel on consumer goods and services; and to conduct research and tests for the better accomplishments of the objects of the association.

To these ends, the CAC's activities include research and testing regarding consumer goods and services; publication of the magazines, Canadian Consumer and Le consommateur canadien; intervention before regulatory tribunals, boards and commissions; representation of the consumer interest on a variety of advisory and consultative committees, standards-setting organizations and marketing agencies; as well as presentation of consumer perspectives on public policy issues to parliamentary committees, commissions of inquiry and others.

The Ontario branch, CAC (Ontario), operates a consumer help office in Toronto which handles several hundred consumer calls per month, and CAC (Ontario) supports local branches and consumer contacts in eight Ontario communities. Except for two staff people in the Toronto office, all of CAC's activities in Ontario are carried out by volunteer members, of which I am one. It is CAC's belief and intention, as stated in its objectives above, that these activities benefit all Ontario residents because all of them are consumers.

We thank this committee on economic affairs very much for this opportunity to present our views.

Now for something on our general views on international trade. CAC has from time to time studied the question of trade with other countries and its implications for consumers. The association has in general supported free trade except in those areas which would threaten national security or national identity and culture.

Perhaps there are days of discussion right there in order to define what those are. Canadians must be able to live with safety and with basic supplies of food, shelter and energy. They must

also be able to maintain and protect their cultural identity, of which they are rightfully proud. Aside from those essentials, CAC believes barriers to trade should be minimized.

The October 1985 issue of Canadian Consumer--it just came out; otherwise I could have brought it--contains a very timely article, entitled Quotas and Consumers, outlining the views of the association on how protective tariffs and import quotas affect consumers. Included in this submission to the Ontario committee on economic affairs are some of the main points in this article, as well as some other points relevant to the mandate of the committee.

CAC hopes the committee will focus on more than just increasing trade between Ontario and the United States. While this is a challenging topic and one with much promise, we believe it would not be in the consumers' best interest to limit free trade activities to the creation of a North American community similar to the European Community.

That organization may benefit its member countries, but it has raised barriers to trade with nonmembers. It might not help consumers to have Canada tie itself more closely than necessary to a single country to the exclusion of all others.

It is CAC's belief that restrictions on free trade usually raise prices and limit consumer choice. Both tariffs and limits on supply make imported goods cost more and permit domestic goods to be sold at higher prices than would be possible if the imported goods were not so expensive. These higher prices affect consumers directly.

Insofar as they raise prices on such basic consumer goods as, for example, children's clothing and footwear or big ticket items, which are really not luxuries today, such as automobiles, the effect is regressive and impacts most heavily on those at the lower end of the income scale. Nor do we believe protecting domestic industries really works to those industries' long-term benefit. Industries which are not encouraged or forced by competitive pressures to become more efficient will be less able to produce attractively priced goods for export.

Import restrictions may prevent some consumer products from being sold on Ontario markets at all, even though they would meet federal and provincial standards for safety and quality and would be welcomed by some people here. There is no doubt that Ontario consumers are very well served in their choice of goods to provide necessities and comforts. At the same time, that choice is limited by what is on the market in Ontario. Those limits may prevent a consumer with particular wants from obtaining the right product.

.They will also prevent that consumer from demonstrating those wants to a Canadian manufacturer. I may really have a craving for purple tennis balls, but if only white, yellow and orange balls are manufactured here and very few are allowed to be imported, I will probably have to pick from white, yellow and orange balls, and this will support industry's belief that these

really are the most popular colours. The existence of a really secret consumer desire, which could be fulfilled by an innovative Canadian firm, will be masked by limitations on the market.

Regarding sectoral free trade, CAC believes arrangements of this type tend to favour large manufacturers, which can afford to lobby for their causes. While recognizing that large-scale manufacturing has many benefits for the consumer, such as standard products in large and dependable supply at lower prices, the association believes the economy requires medium and small businesses as well. International trade agreements tailored to the needs of only the biggest firms will not help Ontario's overall economic development. We would hope any bilateral agreements will be seen as a prelude to broader trade agreements.

10:20 a.m.

Concerning quotas in international trade, CAC believes trade agreements involving quotas generally do not benefit consumers. If quotas are given directly to foreign governments, which then sell them to their manufacturers, that cost will be included in the price of the products Canada imports, causing Canadians to pay what is essentially a tax to a foreign country for that imported product. Quotas based on the number of items imported result in more top-of-the-line items being sent to Canada, for example, more luxury cars, when Canadians have looked to imported cars as being a source of economy models.

Any arrangement involving quotas must be based on encouraging Canadian production and consumption of products Canada can produce well. For example, Canada can compete in producing fine quality clothing and shoes. Canada cannot compete well in producing the least expensive of these items. Any quota arrangement that ignores facts such as these will tend to raise prices for those Canadian consumers least able to pay more.

Any trade agreements should be viewed in the light of long-term objectives. Some agreements will be hard to reverse, especially any that would involve trade in natural resources.

Trade agreements should be consistent with Canada's other international policies. For example, the country of Bangladesh can manufacture men's shirts competitively with other countries from which we import comparable shirts. Its domestic industry would benefit from supplying more shirts to Canada. However, Canada's quota arrangements with other countries limit purchases from Bangladesh. At the same time, Bangladesh is a major recipient of foreign aid from Canada. Would not we all benefit if instead of giving the money in foreign aid to Bangladesh, we spent that money to buy the goods they can produce?

CAC shares everyone's concern about employment opportunities. Importing products would mean that Canadians would perhaps buy fewer domestic products. However, free trade would create job opportunities in manufacturing goods for export. We would hope in the end the employment situation would be improved.

We also believe protectionism can be very expensive. Preserving jobs in some industries costs Canadians far more than just those workers' salaries. There are some figures in the piece from the magazine I brought in that show how expensive it is to preserve some of these jobs and that much of the money does not go directly to the workers but to other costs. In most cases, that money could be spent more productively in retraining the workers and encouraging and creating new job opportunities.

Market research is needed. The population of Canada and Ontario is not static nor is it homogeneous. Consumers tell us, "We cannot buy this product; we cannot buy that product." There is a great need for more specialized products than are on the market. There are unmet needs just waiting for innovative businesses to fill them.

At the same time, we do support domestic industry. While believing that consumers benefit from free trade, CAC also believes consumers should and do prefer to buy Canadian- or Ontario-produced goods when they are competitive in quality. To this end, the association has supported and does support clear and distinctive labelling of products to show that they are made in Canada or that they are grown or produced in Ontario.

In the latter regard, CAC has protested to the occasional food retailer who puts a Foodland Ontario sign over a display of obvious imports. Likewise, we believe terms such as Canada grade A should be used only on Canadian produce, because that is how consumers interpret that designation.

CAC hopes that a priority for this committee will be to study obstacles to free trade within Canada. Removing restrictions to interprovincial trade and to trade within Ontario itself would benefit consumers here. Many agricultural products controlled by national marketing boards rarely cross provincial boundaries, regardless of changes in consumer demand or efficiencies in transportation. Transporting goods by truck costs consumers more than it otherwise might if that industry were not so restrictive.

Recently, the media reported that Ontario bricks were refused at a Quebec construction project. Not only were the bricks sent back, but those that had been installed were ripped out, with the costs being borne in the end by consumers.

While free trade is normally discussed with regard to goods, many consumer dollars are spent on services as well. Most provinces as well as countries carefully regulate the licensing of the professions. Because the demand for services is growing at least as rapidly as is the demand for goods, CAC hopes the committee will not exclude this expanding area from its deliberations.

Finally, to summarize the recommendations or our feelings on trade, CAC (Ontario) believes the best interests of consumers and of the Canadian economy will best be served by the undertaking of broad initiatives in free trade with many companies.

We would hope sectoral agreements would be viewed only as a first step in that direction towards free trade. Protection given to industries that are having difficulty meeting foreign competition should be temporary and subject to time limits. Quotas, if used at all, should be global, flexible and based on the value of goods. New types of industry should be encouraged and workers assisted to enter new types of work.

Restrictions on trade within Canada should be studied and reduced. They should include limits to free trade in professional services and others in any study of free trade. We should remember that the costs of administering complex trade agreements do not always benefit manufacturers and that these costs are borne by consumers.

Finally, along with the demands of business, labour, industry and government in trade discussions, we hope the committee would consider the needs, preferences and pocketbooks of consumers.

Mr. Mackenzie: On page 5 of your brief, you have the comment, "The CAC shares everyone's concern about employment opportunities. Importing products means that Canadians buy fewer domestic products. However, free trade creates job opportunities in manufacturing goods for export." That is part of the crux of our problem in this committee. Can you identify some of those gains we will make as a result of free trade and export opportunities?

Mrs. Kramer: If I could identify them, I would have solved much of our unemployment problem. No, I probably cannot sufficiently identify them. I would assume if we can export more goods, we will have employment opportunities in trades for export.

Mr. Mackenzie: They call it a game of winners and losers. The problem that at least some of us in the committee have and the problem all of us have wrestled with is that we can identify substantial numbers of losses in jobs and whole sectors--shoes, textiles, trucking, packaging, you name it--but we have had very few people able to identify the winners for us. We have had a few--wallpaper, cement, maybe Polysar.

The dilemma we are facing is a pretty obvious job loss, possibly whole sectors in manufacturing, but we are not able to identify anywhere nearly as clearly or as obviously where the gains are.

Mrs. Kramer: Could I ask you a question? I have not heard all the many briefs you have heard and positions presented. How do they propose to preserve the jobs? By keeping the system as it is for ever?

Mr. Mackenzie: A majority of briefs have either said no to the question or have said status quo. Some of those might even have some small gains. The counter-argument is basically that we cannot stick with the status quo in this new society.

- 10:30 a.m.

With respect to the exporting of more products, one of the things that has also been told to us fairly clearly--whether it is totally accurate, we do not yet know--is that we are a branch-plant economy, 49 per cent of our plants being branches, and that if we open up the borders with respect to the comprehensive free trade arguments, there is a distinct possibility that literally hundreds of the branch plants set up only to supply the Canadian market will disappear as a result of the excess capacity that exists in the parent plants now.

The proof is not on the table for all this, but a reasonably compelling argument has been made. That means somehow or other we have to develop a whole series of new industries, and that is what some of us are looking for. Where are the actual gains to offset what appear to be fairly obvious losses?

Mrs. Kramer: I must admit if they cannot tell you, I cannot tell you. My perspective is that of a consumer dealing in consumer goods. It seems to us that if we could increase our export of goods, we might tend to balance off the employment opportunities. In truth, the facts are not that way, in which case one may have to see some of the other points. It is our view that free trade benefits consumers and, of course, that is the perhaps a selfish point of view.

Mr. Mackenzie: Since you are speaking as consumers, I understand it. My difficulty--and that is why I am raising it with you--is that there are very few products that we cannot be beaten on when it comes to international competitiveness.

Mrs. Kramer: The question of national advantage is a very difficult one.

Mr. Mackenzie: That is exactly it. On a world-wide basis, if we were in a position simply to remove all the barriers that are there--and more of them are nontariff barriers than tariff barriers--we might have real difficulty sustaining much of what we have in almost any field in the country. So you are into the question of whether the national interest does dictate that we want to have a hand in some sectors of our economy at least.

Mrs. Kramer: One of the concerns we have is that the more complicated the agreements are, the more costs are built into them that do not relate directly either to the cost of the goods or to the wages of the workers involved in producing them. Some costs are administrative, and a lot of them are not particularly productive costs, except that I suppose people make their money administering the agreements as well. We would like to see things as simple and direct as possible, rather than have X number of this and X number of that.

Mr. Mackenzie: We have a number of disturbing examples. We have a Black and Decker plant that has now been closed down in Barrie, for example, that used to employ more people than are now employed in Belleville, and the subsequent rationalization of their operations, which used to produce 21 household appliances. We are now producing seven in Canada. There is no question that rationalization has led to cheaper prices for the consumers in many of those electrical household articles.

We have a substantial market still in the seven of the 21 remaining, but the comment that was made by one of the Canadian General Electric executives, when the buyout was going on, the consolidation of that plant, was that the most effective business operation today was to build the biggest factory that could be built on the biggest ship and then sail it around to whichever country had the lowest wages.

I know in arguing with the Black and Decker people, when they were shutting down the Barrie plant, there was an acknowledgement that we certainly could produce the seven remaining at a cheaper price if that decision should be made. I hope the rationalization says we are going to keep most of the production, at least in the seven appliances we have remaining.

There is no question we could get a cheaper price still on the seven remaining appliances--I think lawn mowers are among them, and mixers, electric kettles and so on--but we have already lost the bulk of the stuff they used to produce. We could get the rest cheaper, but it would probably be at the price of the 400 or 500 jobs that are left in the total operation. We would also lose most of our capacity because there are not many other plants going into this line to build any of these.

Those kind of things bother me, when you see the pattern of what has happened. We have dropped drastically as a result of economic rationalization. I may or may not agree with it, but I understand exactly what is going on. I know where you are coming from as a consumer, but I wonder at what stage the gains are offset by the capacity both to provide jobs and to have any control over prices.

For example, we had people from the trucking industry appear before us. They said if they were to compete in a free trade market, they would have to deregulate. They gave us an example of what has happened in the US since deregulation. Most small companies and more than half the organized companies disappeared. Some big ones remained and the prices went down for a while, but now they are going up again. These companies are so big and effective that the trucking industry told us most companies would not survive in a free trade situation. If we want deregulation, this is what is at stake. It would also allow shipping in some products more cheaply.

I see the dilemma, but I wonder if the consumers' association have looked beyond the possible immediate gains to see whether there are enough offsetting advantages, which some of my colleagues would argue are there, or whether we are risking our industrial identity.

Mrs. Kramer: I am sorry. I cannot give you even a 25-word answer. It is definitely a tradeoff. I am here to present the consumers' view because I know you are getting the other side. Summed up in a single sentence, I would like to say that we hope the cost to consumers will be considered in working out whatever is going to be worked out. I know you will not suddenly say, "Okay, free trade with everybody." That is not going to happen.

Mr. McGuigan: Mrs. Kramer, you have a good brief

outlining the viewpoint of consumers. It also points out the dilemmas we have, as Mr. Mackenzie just outlined, on labour. There is another one you mentioned on page 5 about ending protectionism at home. At first glance many of us would say we should solve this problem first when we have protectionism at home.

It goes back to another fundamental point we all have been making: Canada does not wish to trade away its national identity and social programs, whereas the United States tends to be more of a dog-eat-dog society. Even within that society you find they do have social programs, but they are hidden more than ours.

One social program in Canada is regional development. We decided long ago to support our have-not provinces with tax transfers and subsidies to encourage industry, not only in Ontario. The basic decision has been that if we allow things to take their natural economic course, most Canadians would live in Ontario, because of geography and the longer growing season. In Canada, good dependable agricultural land, a natural attraction for people, is mostly situated in southern Ontario. Also, we jut so far down into the American heartland that it cuts down on our transportation costs. That makes it cheaper to manufacture and ship from Ontario than from the west, the Maritimes or Quebec.

10:40 a.m.

If we allowed things to proceed economically, a much higher percentage of the Canadian population would live in Ontario than already does. This would put much more pressure on the Great Lakes. Mr. Brandt knows, living as he does in Sarnia, the pressures we already have on the Great Lakes. It would put pressures on our good farm land here in southern Ontario. There is already a big concern that cities are gradually taking over the farm land. You can find a lot of examples that show how this small bit of Canada could end up with a very large population and a lot of social and environmental problems.

We send money, and we try to direct these things to other provinces. In the agricultural field, back in 1971 or 1972, we brought in the farm agencies legislation. Those provinces that had marketing boards agreed to maintain their percentages of production, of eggs, for example. The Ontario quota is around 35 or 36 per cent. Each province has its quota, which is worked out largely to supply the provincial demand. The Quebec egg producers supply the Quebec demand, the Ontario people supply Ontario, etc.

The problem is that, in spite of all we have done, the growth has been greater here in Ontario than in the other provinces. As that growth takes place, Ontario says, "The growth belongs to us." The people from the other provinces say: "Oh, no. Back in the early 1970s we agreed we would each have our share of the Canadian market." We have a constant battle among the provinces over their shares of the quota.

The remedy might be to eliminate it all. You would then have all the other unhappy results I just mentioned, bringing everybody to Ontario. All of us, sitting here, face that dilemma. We say, very positively, that we want to maintain the Canadian social

fabric, but we do not want to make any sacrifice to maintain that fabric, whether it is in labour, agriculture, or whatever.

I know it is a dilemma for you too. You have been fairly supportive of our marketing system, although you criticize it, as you properly should. You have been fairly reasonable in your criticism of that marketing system, but we all end up not knowing exactly what to do.

Mrs. Kramer: Our criticism of something such as egg marketing is that it tends to be too rigid, not quite flexible enough. In Ontario a few years ago the supermarkets, another large power bloc, were putting grade-A large eggs on special, which the Canadian egg system was not able to handle.

They were specially low-priced for weeks, at whatever price they were, causing great disruption because nobody wanted to buy small, medium or extra-large eggs. Our understanding was that, because Ontario could not meet the demand for this egg that was on special for so long the eggs came in from the United States.

We felt they should have been able somehow to get those eggs from other provinces, rather than having American eggs coming in. It was a difficult situation, created by the supermarkets, not by egg consumers or by egg producers. There should have been a way for the Canadian system to bring in Canadian eggs from other provinces. As I understand it, mostly American eggs were brought in.

We have more than one big player creating a situation like that, but we would hope Canadians would be able to react to that.

Mr. McGuigan: I would like to respond to that. I am not an egg producer, but I had to answer a number of letters from consumers who wrote to me. These people were supportive in their letters. They asked, "Why is it you find these cheap American extra-large eggs?" They were mostly extra-large.

It is rather an intriguing story. Chickens do not lay very many extra-large eggs. It is an abnormal thing when they lay extra-large eggs, so in Ontario and in Canada we have a very limited supply of extra-large eggs. The supermarkets, realizing this and realizing it was a way to thwart the marketing plan, would put in an order to the egg marketing board and say, "For the coming two weeks, we want 20 carloads of extra-large eggs," knowing full well the Canadian market could not supply 20 carloads of extra-large eggs.

Because of the relative size of our two countries, right across the border--the egg industry is centred directly south of Ontario, along the Mississippi River, because that river provides cheap transportation for grain which feeds the chickens that supply the eggs. The supermarkets know those eggs are over there and have already made arrangements with American producers. In fact, the American producers have cartons already printed for Ontario extra-large eggs.

If Ontario cannot supply them as part of its marketing

system, we allow the import. So the Americans get an import permit. There is a cycle in American egg production, which goes from famine to feast over several months. They always apply at a time when American eggs are very cheap. Our eggs, because we are on a supply-marketing system, stay at a very level price.

The consumers go to the store and there are grade-A large or extra-large US eggs at maybe 50 cents a dozen, whereas across the aisle there are Canadian regular-sized eggs that cost \$1.19. It completely distorts the market and distorts the image in the eyes of consumers. On the other side of that equation, when prices are high in the US, as they are with the cyclical production they get, our Ontario egg people do not suddenly say, "We are going to ship all our eggs to the States because of their high price." They have a bargain with Canadian consumers, saying, "If you support us through the level of cycle we have, or the lack of cycle, we will support you when we have opportunities to send our eggs overseas."

That particular thing is an exception to our general marketing plan. It is a scheme on the part of the supermarkets to try to eliminate our marketing plan. It is a question for which there is no answer. Under our trading rules, whenever we cannot supply that grade of eggs--unless we go and breed a class of hen that only lays large eggs, and we might do that. It is something to do with the age of hens. It is only in their last few weeks of productive life that they put out large eggs.

Mr. Taylor: It is hard on them.

Mr. Brandt: Some of them do not like it at all.

Mrs. Kramer, I want to compliment both your organization and the work you do, the kind of protection you provide for consumers that would not be in place if it were not for the many volunteers you have. You do an excellent job. I apologize for being a little late and not hearing the first part of your brief. I have read it and I was here for the end. I was impressed with that as well.

I want to bring to your attention, in the light of the comments made by my colleague from Hamilton, Mr. Mackenzie, that the situation is not quite as stark as he might want to portray it with respect to the whole free trade question.

10:50 a.m.

We have had a number of groups and organizations before us, and every one of them, including the honourable members of this committee, have had some apprehensions about free trade, freer trade, market access or any of the liberalized trade concepts that are before us. It is fair to say that a very large number of people have come before us and indicated that, although there are risks and downsides, whether we remain with the status quo or open our trading arrangements with the US, the reality is that a good number of people, organizations and corporations have indicated that they feel the risks are far less if we move into free trade than if we were to attempt to protect our markets without opening up the arrangements between our countries in a somewhat more liberalized fashion.

I want to read into the record some of the groups we have had before us. Many have been from the academic field, but a great number have been from the business field.

We have had John Crispo, for example, who has indicated that free trade in some fashion is the direction to go; the Economic Council of Canada; the Canadian Export Association; CP Trucks; the US Chamber of Commerce, which I guess is understandable; the forest resources group of the Ontario Ministry of Natural Resources; the Canadian Manufacturers' Association; the Ontario Ministry of Agriculture and Food; the Centre for Canadian-American Studies; the Canadian Business Equipment Manufacturers' Association; and Polysar Ltd.

I am not giving you a totally comprehensive list, but it includes a good number of the ones that have come before us. There have also been presentations from the Retail Council of Canada, the Metro Board of Trade, the Royal Bank of Canada, the Bank of Montreal, Holiday Inns, Connaught Laboratories, Algoma Steel and the Sault Ste. Marie Chamber of Commerce.

These are some of the organizations that have indicated it would be to our advantage to increase or enhance our market opportunities in the United States, recognizing that something like 90 per cent of Ontario's exports go to the United States, which leaves us with 10 per cent going to the rest of the world.

I share the concern expressed by many members of this committee that perhaps we are too dependent on American trade and the volatility of the American market, and I think we should make every effort--you mentioned this in your brief--to deal with other countries and to expand our relationships with other areas where we are not directly dependent on one market.

Your brief probably comes down on the side of caution in making sure the consumer is protected in whatever agreements we enter into in the future. That is probably a very good judgement on your part. If you attempt to protect a particular industry from any outside competition, the consumer loses in many instances. You have a closed market where the industry in question can charge whatever price it wants, recognizing full well that it does not have to operate in a competitive environment.

In this committee, we have to reach a very sensitive balance. Your brief is valuable to us in the sense that you approach this question from a very sensitive and balanced viewpoint. I want to compliment you on that. I wanted to add the factor of the other groups that have come before us, either personally or by way of brief, and have indicated they favour at least negotiations in some form for enhanced trade opportunities with our major trading partner.

Mr. Chairman: We have now had one rambling speech from each party--

Mr. Morin-Strom: I do not remember one from ours.

Mr. Chairman: Well, I would like to ask all members from

now on to try to confine their comments to questions of the witness as opposed to speeches. Are you finished, Mr. Brandt?

Mr. Brandt: Do you want me to ask a question now?

Mr. Chairman: All right. Go ahead.

Mr. Brandt: In preparing your brief--because you have such a widely dispersed membership; I believe it is 160,000 members--how did you come to a consensus with respect to this position? Can you give me some indication of the mechanics your organization went through? Is this reflective of your total membership, your executive? How did you arrive at this being the position of your association?

Mrs. Kramer: First of all, I am wearing my CAC (Ontario) hat. We do not have 160,000 members in Ontario. We wish we did, but we do not. We have something more than 50,000 members. The views I have presented here are based on the overall policy of the association, which is derived partly from resolutions supported by our annual meetings and by the work of both our national and provincial economics policy committees. I consulted with them and resource people of that type to create this.

Mr. Brandt: I am not asking this in a critical fashion, because our committee does this kind of thing and other groups have done similar things, but do you involve yourself in any kind of professional consulting advice, or is this a layman's position in that it is put together by volunteers?

Mrs. Kramer: Would you clarify what you mean by that?

Mr. Brandt: Did you pay for any research that went into this brief? Are there any experts who have their opinions woven into the position you have put before us?

Mrs. Kramer: I consulted people I consider to be experts who are volunteers for the association. I also contacted, to be quite specific, our national office to ask a person on staff there about his views which would be those from our regulated industries program. It is called RIP; it is easy to remember, rest in peace. This program involves relatively more staff and is involved in presenting briefs before regulatory boards and that kind of thing.

It was a composite of mostly volunteer people. The Ontario association did not directly pay anyone to provide us with the views here.

Mr. Brandt: I have a couple of very brief questions. This issue has not reached a consensus across the country. Ontario is seen as being somewhat more hesitant, justifiably so, in entering into any kind of free trade agreement. We are erring, if at all, on the side of caution. The other nine provinces have already expressed a view of wanting to enter into a free trade agreement rather quickly.

Are you aware of your association in any of the other nine provinces taking a different position from what you have put

before us? I am talking about the provincial organization's position as opposed to the national position. Are you completely in lockstep across the country in where you want to go with this question? I can assure you the provinces are not.

Mrs. Kramer: I believe this to be fairly typical of the views of our provincial associations regardless of what the views of the provincial governments would be.

Mr. Brandt: Are you aware of any other briefs that have been brought forward by any of your provincial organizations?

Mrs. Kramer: No, I am not.

Mr. Brandt: I do not believe there are any other provincial committees studying the question. There is a federal committee.

If you were to ask someone in Alberta whether he was in favour of free trade, in all probability because of the very different provincial economy there, you would get an absolutely resounding yes. They favour moving into the American market on a more intense basis.

Ontario's position is a little more cautious. That is why we are looking as carefully as we can at the question and trying to determine what the people of Ontario want and what is in the best interests of all the people of Ontario.

Mr. Morin-Strom: I would like to ask some questions about your knowledge and experience of goods coming from Canadian suppliers compared to foreign suppliers. I wonder if you could give us an assessment of--

Mrs. Kramer: Are you thinking of the quality?

Mr. Morin-Strom: Quality and--

Mrs. Kramer: Canadian products are excellent.

Mr. Cordiano: We would never doubt that.

11 a.m.

Mrs. Kramer: No; that is right. People are proud to buy Canadian; I cannot remember what the program is called, whether it is "Shop Canadian" or "Buy Canadian." We were invited to some of the early talks about that; it had a distinctive label. I cannot remember whether it said "buy" or "shop."

I only read the Canadian aspect of it. Canadian goods are very high quality. We do not tell consumers to buy them. When we have our product tests, we always indicate where the goods are manufactured. They are almost always Canadian products anyway, and some are better than others, but that is true of any range of products.

There is a concern that is perhaps not directly in line with

what you asked me, but it is one that I am constantly reminded of. Members of our association frequently are working towards higher-quality products. We are not in favour of a throwaway society, planned obsolescence or that sort of thing, because we feel it wastes resources.

At the same time, we must recognize that there are people who simply cannot afford to buy top-of-the-line products, even though they outlast everything else. There are people who have to buy inexpensive items; they have the same needs as the well-to-do or the middle class, but they cannot afford to pay the same prices.

I am not saying that Canada should only make those; that is not true. What I am saying is that there must be products available that are safe and as durable as possible at the lower end of the price range as well.

Mr. Morin-Strom: Over a period of time, is a person better off buying a higher-quality product?

Mrs. Kramer: I think so, but some people cannot. I know a family that has 10 children, the oldest is 17, and they could probably not afford to pay, say, \$100 for a child's coat. When you have to buy 10 of them, that is a lot. They would need something inexpensive.

Mr. Morin-Strom: But if they have to replace that on a regular basis, are they not being penalized? Are they not actually ending up paying more?

Mrs. Kramer: Possibly. Of course, there are hand-me-downs. On the other hand, that three-year-old--this is awfully silly--is not going to wear that 17-year-old's coat when the three-year-old gets to be 17, because the styles will have changed. I have been forced to give away very high quality merchandise that has been saved as hand-me-downs too long. Sorry. I did not mean to drift off the subject.

In general, we think Canada produces a very high quality line of goods.

Mr. Morin-Strom: Generally, you think that, given the same price, the Canadian goods should be preferred?

Mrs. Kramer: Yes, that is fair to say.

Mr. Morin-Strom: How much of a premium do you think Canadians should be willing to pay for a Canadian good rather than a foreign good?

Mrs. Kramer: I cannot give you a dollar figure.

Mr. Morin-Strom: Do you think Canadians should be willing to pay an extra 10 per cent to buy a Canadian good rather than a foreign good?

Mr. Kramer: I could not give you an association policy on a question like that. How much is too much? I do not know.

Mr. Morin-Strom: Is that not part of what tariffs are all about, to encourage the purchase of Canadian goods?

Mrs. Kramer: That may be true. We would hope that Canadian goods would compete in a Canadian market on the merits alone. I could also say that consumers are not homogeneous at all; some of them buy strictly for price.

We were talking the other day with some people with one of the oil companies. They said people will go across the street to save a tenth of a cent a litre on gas, which is ridiculous because it will cost them more to drive the car across the street to get the gas, but they will do it. Other people would be more influenced by the fact that it was made in Canada or had other features which they felt were more than offset by the difference in price.

I am sorry; I just cannot answer your question.

Mr. Morin-Strom: Taking another tack on the same line, what about responsibility for the quality and safety of the goods? Do you experience any difficulty, from the point of view of Canadian consumers when they have difficulties with products from foreign producers, in getting back at the foreign producers in regard to accepting responsibility and liability for the goods?

Mrs. Kramer: Generally speaking, I think they can go to their retailers. I cannot give you facts. I am not aware that we have had difficulty of this type, except perhaps in some products that are not on the mass market.

This is something I thought of before I decided we should have a fairly general brief speaking more about the costs and product availabilities. One of the things that crossed my mind in reading over the mandate of the committee was that if there is more free trade, there would be more products, particularly of the kind that a consumer cannot look inside. I cannot evaluate an electric can opener too well, for instance, but I can pretty well evaluate a piece of clothing because I can look at it inside and out. I do not know what goes on inside a radio or television set. This is something that will have to be looked into if there are to be more imported goods.

Mr. Morin-Strom: Do you know whether under the Canadian legal system the consumer has complete rights with respect to liability to prosecute foreign producers of goods?

Mrs. Kramer: No, I do not know. The consumer would go to the source from which he purchased his item. If he could not get satisfaction there, it would depend on the amount whether it was worth going to small claims court or appealing to us and other groups to initiate some kind of PR campaign to discredit that retailer.

I do not think you are going to go to a foreign country to obtain redress on a relatively small purchase, but you will not buy that product from that country again.

You talked about something I had thought of; we must insist

that imported products meet similar basic standards of being able to perform the purpose for which they were created for a reasonable length of time and that they meet our safety standards.

Mr. Morin-Strom: This example would not be a consumer one specifically, but say it was a thing like a broken rail on one of the major rail lines in Mississauga that caused the evacuation of part of the population a few years ago when there was a major spill. In a case like that there may be liability to the producer of that rail, but if that producer is not a Canadian company, how do we have recourse for a major accident, a major tragedy that could be the result of negligence of a foreign supplier?

Mrs. Kramer: I view it as a complication.

Mr. Morin-Strom: In a sense I would see tariffs as being one way of them paying a penalty which could be used by the government to provide an insurance program to cover unforeseen liabilities.

On a separate thing, product standards, one of the concerns with respect to trade agreements is the removal of nontariff barriers. One of the difficulties is the fact that there are different product standards from one country to another. Do you feel there is any reason why Canada should have its own product standards, or should product standards between the two countries be uniform?

Mrs. Kramer: I believe Canada should establish product standards suitable for this country. In doing so, we should look at standards that are available in other countries. If they should be way out of line, or if they differ markedly from those of countries from which we wish to import, we should look at why there is a difference and whether this is a vital difference.

11:10 a.m.

Mr. Morin-Strom: So you do not think that should be an item on the negotiating table in terms of one of the objectives being common standards for Canada and the United States? I am taking the point of view that is a nontariff barrier and we have to eliminate differences and standards.

Mrs. Kramer: I think Canada should look at the standards it feels to be essential and then look at how foreign goods measure up to those standards. In that case, Canada may wish to change its standards. I suppose I am saying both yes and no to what you are asking me.

Mr. Morin-Strom: Do you think Canada should keep complete autonomy over those standards or; as a compromise, do you think maybe there should be a joint commission which could adjudicate how common standards could be determined and established? In other words, should Canada have its own standards or do you think that should be up for negotiation?

Mrs. Kramer: It would depend on the nature of specific differences. For instance, our country is colder. Maybe a resistance to cold is more important here than it is in some other countries.

Mr. Morin-Strom: You are saying you are opposed to the concept of a joint committee that would be able to tell Canada that it has to accept a common standard with the United States?

Mrs. Kramer: I refuse to give you a yes or no answer. I think it would have to be looked at.

Mr. Morin-Strom: That seems to be an area that should directly affect consumers. It could very well be an item that would be up for negotiation.

Mrs. Kramer: I am sorry. Did you say, would or would not?

Mr. Morin-Strom: It could very well be up for negotiation, perhaps with the authority going to a joint committee versus us maintaining an absolute veto.

Mrs. Kramer: I still say it is possible. It would depend upon the nature of the product. We do not want to see the safety of Canadians compromised. Possibly we would be more flexible on quality and colour. I think it is also a question of case by case. It would have to be looked at quite carefully.

Mr. Ferraro: Mrs. Kramer, I have two questions specifically. One may be somewhat redundant, but I find I need some reconfirmation or further emphasis on your part.

I assume that your association is stating we can no longer have the status quo. In other words, protectionism and/or the 20th century is a reality and changes have to be made. Is that a safe assumption?

Mrs. Kramer: Yes.

Mr. Ferraro: Okay. You did not hesitate, so I appreciate that response.

The second question deals with a specific item you had on page 5 that caught my particular interest. When you talk about removing obstacles to free trade, you also talk about interprovincial restrictions that we are aware of to a significant degree. But for the first time you indicate there is difficulty and there are obstacles to free trade that affect consumers within Ontario itself. I assume you are saying that specifically with regard to the transportation restrictions and cost. I want you to confirm that for me, if you will, and to elaborate to a degree.

Secondly, what steps has your association taken, at whatever level of government, if any, to voice those concerns?

Mrs. Kramer: It is primarily in the trucking industry. I am not an expert on it. This was mentioned to me by one of our

experts as one. Trucking is not always carried on in the most energy-efficient manner because of the regulations in place. The trucks do travel empty when there could be a way in which they could have goods going back and forth.

It just so happens there is an article about trucking in our brief.

Mr. Ferraro: I suppose to some degree too, if I can raise it without distracting you, the difference in the cost of gasoline between northern Ontario and southern Ontario would have a bearing on consumers.

Mrs. Kramer: Yes.

Mr. Ferraro: But that is an aside, I suppose.

Mrs. Kramer: Yes. Our association, mainly through our regulative industries program in our national office, has wished that there were somewhat fewer regulatory controls over trucking. Within Ontario was not perhaps the wisest choice of words because I am not aware of each of the rural townships having borders.

We were also asked a couple of years ago to comment on the regulation of transportation as far as milk was concerned. As a lay consumer, I was quite surprised to discover some things about it. We just all spelled out that the milk trucks can only go from here to there and so on, probably on a fairly efficient basis. We did not say this was wrong, but I did not realize it was so absolutely cut and dried. It is very hard to change things like that even if conditions and populations change. The rules are set down that you shall move only from here to there.

Mr. Ferraro: It is a very interesting scenario and somewhat confusing for me, but is there not a fear to some degree that if government regulation or legislation came in to alter this situation, this inequity, that consumers could be paying more?

I just throw that out. I am not a proponent of this at all. I am just being the devil's advocate now. If there was a subsidization of gas, for example, in northern Ontario, in reality is it not the taxpayers, the consumers, who pay for it one way or another?

Mrs. Kramer: We pay for everything.

Mr. Ferraro: It is a catch-22 situation to some degree.

Mrs. Kramer: Yes, consumers always pay. One concern of our association has been to try to make it as progressive a kind of payment as possible. Many consumer items--again I go back to food and clothing--are essential for everyone. There is a choice on how much you can pay. You can buy top-of-the-line items or lower down, but everybody has to have them. Increases in those areas tend to impact mostly on people who spend the most of their disposal income on those products.

Mr. Ferraro: Do you have any ideas on how we can get rid of these barriers internally as a province and yet not pass the cost on to the taxpayer?

Mrs. Kramer: I will not solve that for you.

Mr. Ferraro: I wish you could.

Mrs. Kramer: So do I. I would be happy to right it, to unravel it, yes.

Mr. Ferraro: Okay. Thank you very much.

11:20 a.m.

Mr. Mackenzie: Just for a moment, I will try to be short and direct, Mrs. Kramer. Your response to Mr. Ferraro's question was that you were satisfied there was no option but to proceed with the free trade talks, that the status quo in today's modern age is no option. Given our concerns, given the fact that 90 per cent of our trade is now in that one basket, do you reject out of hand--I just want to be sure of your position on this--a status quo arrangement that could set up a much better mechanism for dealing with the individual trade irritants we have, perhaps some kind of joint commission such as we have for the waterway, and just letting talks on trade continue as they do now, without any kind of agreement, almost every day of the year with various companies and organizations?

In other words, I want to be sure you are totally rejecting what might be called a status quo arrangement--I do not consider it a status quo arrangement because the trade talks are going on at all times without the agreement, whether we enter into it or not--but with a much better mechanism to deal with the problems we are facing.

Mrs. Kramer: If I said I was--

Mr. Mackenzie: Do you reject very clearly the status quo, given the current day and age, and do we have to enter into talks?

Mrs. Kramer: I am asking for flexibility and a willingness to consider change. I am not saying throw out everything.

You mention the International Joint Commission, which has been a very praiseworthy organization, but I am not sure that it has succeeded in accomplishing everything we wanted accomplished regarding the Great Lakes. It is my understanding that Canada's contribution towards cleaning up the lakes has been considerably more than that from the other side of the border with regard to water quality etc. That was a step in the right direction, but did it really--

Mr. Mackenzie: Whether it is a good one or not, it is an analogy. The argument we constantly hear is: "Hey, we cannot stay

with the status quo. We have to enter into free trade talks that are designed to remove all of the barriers as a defence against the protectionist legislation that is facing us in the US." But even now 90 per cent of Ontario's trade is with the US. We really have all of our eggs in one basket. That may increase, regardless of what we do.

There are trade talks going on. We are not suddenly going to initiate free trade talks. They have never stopped and they never will stop. Is it possible that a better approach would be to find some mechanism of dealing with the irritants, which are fairly obvious now--auto, hogs, and what is the one that most often gets mentioned?

Mr. McGuigan: Logs.

Mr. Mackenzie: Logs. Is it better to try to deal with the irritants in various areas rather than finding some way of totally opening the trade barriers.

Mrs. Kramer: Again, I am not going to answer with a yes or a no. It is the view of our association that it would be better to take a broad approach rather than a specific one because one thing tends to create another chance someplace else. This does become very complex and tends to increase costs to consumers.

Mr. Mackenzie: There is a tendency for all of us to try to get absolute access, and I understand that. I am just trying to discover exactly how far you were going when you agreed with the way Mr. Ferraro put his question. Have you rejected anything but a free trade option?

Mrs. Kramer: I did not intend my answer to his question to be that absolute.

Mr. Mackenzie: Thank you.

Mr. Cordiano: On page 3, your brief makes a statement about large-scale manufacturing having a number of benefits to the consumer: lower prices of goods, etc. You also state here that the association believes the economy requires medium and small businesses as well.

Given the fact that most of the new jobs that are created today are created by small or medium-sized businesses, it is inevitable that more small firms will be created if our economy is going to grow. Do you think that would be a detriment to the consumer, if our economy produced smaller businesses which serve the needs of certain market segments? Is that what you mean to suggest?

Mrs. Kramer: No, no. If I have written it that way, that is the opposite of what I mean. We believe there are many consumer needs which probably can be met only by small businesses because some demands are quite small. There are more of us who are getting older. Some old people have fairly specialized needs in consumer groups of all types. I do not think a huge company to meet them.

Mr. Cordiano: Right. This leads me into my next question about the trade agreements. You seem to suggest here a concern that the biggest firms will gain the most, or that it would be tailored to their needs and their interests. Is there anything that you base that on? Is there something we do not see here?

Mrs. Kramer: It is our general understanding that when things are negotiated, it is the big firms that get in there. They have the money to bring people, even as I am sure they have brought people to your inquiry here, with glossier-looking briefs than mine. That is fine. I am not trying to make a slur against glossy.

Mr. Brandt: Not necessarily better, but glossier.

Mrs. Kramer: That is right.

It is difficult for a small business to compete in this manner. We are afraid they will get left out.

Mr. Cordiano: We have had presentations made to us regarding specific areas of our economy, specific segments in which we have to become more competitive in order to create the jobs we require. I think it has been the belief of this committee that those areas are very important to our economy. In a free trade negotiation, those areas would be considered crucial and perhaps some sort of special arrangements would be made.

Getting back to that point, I was wondering whether you have any knowledge of any particular areas or segments where small firms have concerns. What I am trying to get at is whether your association has any knowledge of those areas in which there is a great deal of concern in addition to some of the larger concerns you have.

Ms. Kramer: I am sorry, but I am not prepared to be more specific than what I have said here.

Mr. Cordiano: Thank you.

Mr. Chairman: Any other questions? Mrs. Kramer, I might indicate to you that despite the occasional insistence of politicians on a yes or no answer, I can assure you that the members of this committee can become very agitated indeed when they are asked to give yes or no answers to some of these questions, as we internally observed yesterday.

I want to thank you for your presentation. It was a good one and it gave us the view of the consumer. I think that was what you were trying to reflect today. It is a view we all must consider because there are consumers in all our ridings, I am sure.

I suppose I can suggest to the committee that, at least in the short term, the consumer can be added to wallpaper, cement and Polysar as a winner. We have to consider, of course, whether or not in the long term the consumer will have the money to buy the items that might be cheaper in the short term. That problems rests

squarely on the shoulders of this committee. Thank you very much for the time you have taken and the work you put into your presentation. I assure you we appreciate it very much.

Mrs. Kramer: Thank you very much.

Mr. Mackenzie: Mr. Chairman, with regard to your remarks, I am not sure the verdict is in on whether or not even in the short term they will prove to be the winners.

Mr. Chairman: Yes, all right. There is a perception at least that they may be.

Mr. Mackenzie: I agree with that in the case of those who keep their jobs.

Mr. Chairman: For those who keep their jobs. Yes, that is what I was attempting to say too.

Members of the committee, our next witness will not be here until 3:30 p.m. It was suggested yesterday that in the interim we revert to our in camera discussions. I would also indicate that this afternoon I have an engagement in my riding, which predates the formation of this committee, and I will not be here this afternoon. Mr. McGuigan will be chairing.

We could commence those discussions again now, or it might be more valuable to adjourn now and resume our hearings at 1:30 p.m. instead of two o'clock so that we have two full hours of discussion as opposed to breaking it up for lunch. What is the view of the committee?

Mr. Morin-Strom: It was my understanding that we were going to resume the discussion on Monday.

Mr. Chairman: Is that the consensus of the committee? Fine. We will adjourn now until 3:30.

The committee recessed at 11:31 a.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

WEDNESDAY, OCTOBER 2, 1985

Afternoon sitting



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Substitution:

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Witness:

Neufeld, Dr. E. P., Senior Vice-President and Chief Economist,  
Royal Bank of Canada

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Wednesday, October 2, 1985

The committee resumed at 3:40 p.m. in committee room 2.

ONTARIO TRADE REVIEW  
(continued)

The Acting Chairman (Mr. Knight): I am taking over the chair as interim chairman because unfortunately our vice-chairman has not arrived. He was going to take over for Mr. Cooke this afternoon.

This afternoon we have Dr. Neufeld, senior vice-president and chief economist of the Royal Bank of Canada, appearing before us. I see a couple of his confrères with him. Perhaps Dr. Neufeld would introduce them.

If you would like to present your brief, we will ask for any questions there might be afterwards.

DR. EDWARD P. NEUFELD

Dr. Neufeld: Mr. Chairman, we have in the hall today Mr. Gulliford and Mr. Tedman, both with the Royal Bank here in Toronto.

It is indeed an honour for me to have been asked to appear before your committee. I particularly appreciate being given this opportunity to discuss Canada-United States trade policy with you because it is an issue of great importance to this province and to all Canada.

The debate on this issue has been moving very swiftly. Prime Minister Mulroney, in a statement to the House of Commons on September 26, moved a step closer towards the beginning of trade negotiations with the United States. On the same day and just before the Prime Minister's statement, Premier Peterson outlined in a public address the conditions that he felt should hold in order to reduce the risks and broaden the prospects for Canada in any negotiations with the United States.

Even well before these statements, the issue of the impact on Canada of trade liberalization has been examined professionally and exhaustively a number of times. Most recently, we have seen a study done for the C. D. Howe Institute by two authors, one of whom was Professor Lipsey, and the Royal Commission on Economic Union and Development Prospects for Canada. As well, the Special Joint Committee of Parliament on Canada's International Relations submitted its interim report to Parliament on August 23 after quite extensive hearings.

In the light of these developments, some might feel that events have to a degree overtaken the deliberations of this

committee, the Ontario select committee on economic affairs. Let me hasten to add that, in my judgement, nothing could be further from the truth.

There is urgent need now to develop a better consensus in Ontario on the major issues in the trade dispute. Without such a consensus, actual progress in developing trade policy will be long in coming. Your committee is unusually well placed to make a vital contribution to building such a consensus in Ontario.

I would like to refer briefly to the issues on which a better consensus is needed. I have used that word four or five times quite deliberately. I will do so in a way that at the same time as it indicates where I think consensus must emerge, it also indicates what my own views are.

First, the overwhelming weight of research evidence convinces me that there are significant and permanent benefits to Canada and Ontario in adopting a policy of appropriately phased trade liberalization with the United States. There are also benefits to the United States. It is these mutual benefits that form the basis for a successful negotiation.

Let me underline that for this reason it is wrong for us to believe that if the United States gains, we must lose, or if the United States appears positive about negotiating, we should be suspicious. Yet I sense already, as I read the press and the discussions, that these are elements of the debate at this time. We should be wary of them.

Second, there are transitional costs in trade liberalization. There is no logic in having these carried only by the individuals and the companies directly involved. Adjustment programs are an essential part of trade liberalization. Their costs should be borne in part by the nation as a whole, just as the benefits of liberalization will go in part to the nation as a whole.

At the same time, transitional costs should not be used as a reason for opposing trade liberalization. They should be used to make the case for transitional adjustment policies. In reading through the evidence of this committee, I could not help but notice the number of times witnesses were mixing up the benefits of trade with transitional costs without separating them clearly. They must be separated and the recognition has to be that it is not possible for the transitional cost argument to be a fundamental argument against the case for trade liberalization. It is a case for having transitional policy.

Third, it is important to recognize that the transitional costs involved are not fundamentally different from the restructuring costs that a rapidly changing economy, an economy such as ours, faces all the time. Only think of the changes that are occurring in our resource industries because of changes in demand and international competitiveness; in our manufacturing industries because of changing production technology; in our recreation industries because of changes in lifestyles; in our service industries because of the need to minimize labour costs,

and in many hundreds of individual companies because of failures of management or because of the need for rationalization.

Let me illustrate this question of the degree of ongoing economic change taking place in Canada. I have some examples. During the last five years, 1,826,000 Canadians have moved from one province to another, many of them in response to economic opportunities. Since 1970 the participation rate of women in the labour force has increased from 38 per cent to 53 per cent, or by 1.4 million persons. The economy has accommodated these huge structural changes without major disruption.

Between 1980 and 1984 over 45,000 businesses in Canada, including nearly 15,000 in Ontario, have closed their doors through bankruptcy. This is a fact of life in a competitive market economy and the economy absorbs it, in part through the emergence of new companies. I believe, therefore, that well-managed trade liberalization would not pose fundamentally new challenges of change. If trade liberalization is appropriately phased in, the challenges would probably not be as great as those being absorbed now every day.

3:50 p.m.

Fourth, because of rapid changes in the whole of the international economy, a decision to do nothing with respect to trade policy is not a decision to keep what we have. Rather, it is a decision to lose part of what we have. Therefore, for Ontario, as for all of Canada, orderly trade liberalization is the means to preserve and create jobs in Ontario and to protect living standards. It is not a threat to these objectives.

Fifth, there is great need to recognize that trade liberalization is an essential element of good industrial policy. As a nation we cannot hope to build a strong economy with industries that cannot meet the competition. This is true for purely domestic companies, for companies that live on exports and for companies that face import competition. Strong, competitive companies create jobs and provide good wages to workers.

Sixth, because of the importance to us of the US market, it would be against our interest to wait until progress is made in multilateral discussions in order to improve our access to the US economy. Let me hasten to add that this need in no way reduce our interest in and strong support for the General Agreement on Tariffs and Trade negotiations.

Seventh, we should not waste too much time arguing over what our approach to negotiations with the United States should be, whether it should be general or sectoral. We should do what negotiations reveal to be possible. I would guess this would almost certainly be somewhere in between those two options.

Eighth, we should recognize that if failure to gain better access to the US market means a deteriorating economy in Canada in relation to the United States, one with reduced confidence in itself, this could ultimately pose a threat to our cultural identity and political independence.

My final point is that we should recognize that trade policy can do only so much for us. If fiscal and monetary policies, not to mention federal and provincial industrial and wages policies, do not generate increased economic efficiency and an environment hospitable to growth, trade policy will not save us by itself.

These, then, are the issues and areas on which I believe there should be better understanding and consensus in Ontario. I would like to elaborate on a few aspects that seem to me to stand out.

For Ontario the potential benefits of trade liberalization are particularly important, because the US market is huge. Canada's resource industries for the most part already have unhindered access to a large market. It is Canada's manufacturing centre, concentrated in Ontario and Quebec, that stands to gain most from reduced trade barriers. It would be able to achieve the volumes of specialized production it needs in order to lower costs, increase production and create jobs. Without such increased access it could not be looked to for a healthy expansion of employment opportunities for Canadians.

If manufacturing does not create jobs in Ontario, what sectors will? Many firms in Ontario now face the prospect of lacklustre growth because they are without world-scale markets. That situation must be unblocked. In the absence of liberalized access to larger markets it is Canada's industrial heartland, Ontario and Quebec, that would suffer the most.

A bilateral approach to Canada-United States trade liberalization seems to me to be well suited to Ontario's interest. Consider that whereas 76 per cent of Canada's exports went to the United States last year, fully 90 per cent of all Ontario's exports outside Canada were destined for US markets. Protecting that market and building on it is of overwhelming importance to Ontario. Orderly liberalization of trade would enable Ontario industry to do just that by becoming more competitive. At the same time, it would enable it to acquire in an orderly way the competitiveness needed when other world markets are opened up in the next GATT negotiations.

We should recognize the close relation between Canada-United States trade arrangements and job-creating foreign investment in Canada. A plant in Canada is more attractive if it is in a position also to supply the US market, as it would be under liberalized trade. Furthermore, in some areas of manufacturing where Canadian costs would be more than competitive with US costs, foreign investors would have a positive incentive to locate in Canada. They would not do so, however, if access to the US market did not exist or if there were great uncertainty over how long that access would last.

Perhaps one of the most difficult political aspects of any trade liberalization process is that the benefits of trade liberalization are more dispersed and therefore less visible than the costs, even though they outweigh the costs. This is probably why trade associations tend to support liberalization more than individual companies and why costs generally receive more public attention than benefits.

Trade liberalization negotiations need not be a high-risk venture. It is not a process that, once begun, cannot be guided and shaped to ensure that vital interests are protected. The key would seem to be for Ontario to take a prominent role in the negotiating process, so the management of transitional costs goes hand in hand with the creation of new opportunities. I agree with those who believe that the time has come to leave generalizations behind and become specific as far as Canada-United States trade negotiations are concerned.

This can only happen if there is a broad understanding and consensus in Ontario and throughout Canada that moving positively into bilateral negotiations is in our interest; that transitional costs must be shared; that with good management the economy can absorb the structural changes involved; that to do nothing is to go backward, and that for Canada economic, political and cultural security will be enhanced by a strong economy that is shaped to meet the challenges of a very competitive world.

Thank you very much, Mr. Chairman. I would be pleased to respond to the questions of the members of the committee.

The Acting Chairman: Thank you. Are there any questions from the committee?

Mr. Brandt: Dr. Neufeld, thank you for a very interesting brief. As has been the case with a number of briefs we have received lately, it has added substantially to the dimension of the issue and given us a whole host of new information that is of importance to this committee in arriving at our conclusions.

There are those who have put forth the argument that with 90 per cent of our trade in the export area now being dependent on US markets, a free trade agreement will accelerate that process and make us even more dependent on one market, as opposed to the other argument which would be to enhance our trade in other parts of the world.

I wonder if it follows logically that through free trade we will increase trading activity between the United States and Canada and there may be an increase in that 90 per cent. Would that concern you as an economist and as a banker? What are your feelings on that?

Dr. Neufeld: My best guess is that over a period of a decade that ratio may not change very much. The increase in our cost advantages that would come from having a larger market in the United States would also serve us well in our competition with other countries. We would be a more effective player in all markets from the point of view of industrial efficiency. I do not necessarily think that over a period of time the ratio would rise.

In any case, it would not concern me very much if it did rise. When all is said and done, trade is an economic issue. It arises because of efficiency. If you are holding it back for noneconomic reasons, it weakens the nation. If it works out that we have this high degree of trade, as is the case with other pairs of countries in the world, because we can be an effective player

in the US market, I do not think that would raise new problems for us.

4 p.m.

Mr. Brandt: There is a recent study by the Ministry of Industry, Trade and Technology--although we have not yet officially seen it, there have been press reports on it--which indicates that Ontario could place in jeopardy more than a quarter of a million jobs, particularly in the manufacturing sector, if we entered into a free trade agreement.

I do not believe the other side of the coin, which is part of the area you covered in your presentation--namely, the benefits--was addressed adequately in that study. I say this from a position of not having seen it yet, but there are counterpoint arguments here, one being what you might lose and the other being what you might gain. Our committee is involved in trying to determine what the sensitive balance is between those two.

Would you like to make a comment on whether that seems like a realistic loss? If there are those negative areas with which we have to concern ourselves--namely, the loss of 250,000 or more jobs; and I think I am being charitable when I use that number, because I believe the study said 270,000--where do you see the counterbalancing advantages or opportunities on the other side of the ledger? Perhaps you could identify those as well.

Dr. Neufeld: I will do the best I can. First, with regard to the question of pointing to the job loss, you have made the effective point that I would make, which is that there is the other side of the ledger. Any ledger gives an unbalanced view if you look at only one side of it. What we are saying is that jobs gained would exceed jobs lost. That is the first point I would make.

The second point is, the assumption in those studies that no jobs would be lost if you did not do anything, is wrong.

Mr. McGuigan: Just look at Chatham.

Dr. Neufeld: Yes. I am suspicious of studies that look at only one side of the story. They should answer two other questions: (1) How many jobs would you lose if you did not do anything? (2) How many jobs would be gained from that policy? That would be a good study.

Concerning whether the 270,000 is a reasonable impact, any of those estimates are pretty general in nature. You cannot identify it because most often those studies tend, unfortunately, to be on an industry basis rather than on a company-specific basis.

We know from past moves towards trade liberalization one thing that does not happen is to wipe out industries; that does not happen. What happens is that you get regrouping in industries. The strong survive and the weaker move out. Therefore, it is very difficult to get a really hard figure for jobs lost. But when you have a situation in which the growth prospects, by the best kind

of application of an analysis that one can make, are positive on balance, it also means that job prospects are positive on balance.

Concerning the counterbalancing advantages in a very specific way, I have mentioned what I think is a key point, which is that, for the most part, trade liberalization does not lead to the wiping out of industries. What it means is a regrouping of industries; the changing of scales of production.

Therefore, I would envisage the gains being very broadly spread over manufacturing industries in Ontario. They would not just be here and there; it would be very broad where individual companies would find their niche in the international markets.

We have already had some examples in the Canadian telecommunications area and others where, when management took the decision to move into those markets in the way that current trade law permitted, the results were really quite encouraging. Canadian companies can be world players; they have the expertise and the intelligence to be world players, but they cannot do so without the markets. So I would see the gains, the counterbalancing advantages flowing very broadly amongst Ontario industry.

Mr. Brandt: Because a lot of the emphasis in our committee meetings has been on the losses, I wonder whether you might expand on the area of your brief in which you talked about the transitional costs. You really did not identify completely what you meant by "transitional costs."

I would assume one of the factors would be the possibility of the 270,000 job losses that were identified in the study, if that is an accurate figure.

Dr. Neufeld: Yes, it is.

Mr. Brandt: How do you see a comprehensive response program being put into place that would allow us to minimize any of the hardships suffered as a result of this transitional period? What do you think the government's role in all of that would be?

Dr. Neufeld: I think the government has a very important role because I think it is a national responsibility. When all is said and done, our protected industries that grew up behind walls of protection did not do so because of decisions they made. The government was the national authority that made the decision to construct that protective system. It is not their fault.

Therefore, if national policy dictates those barriers should now be dismantled, that is not the fault of those individual companies either; it is a national decision. There is a responsibility on governments, both federal and provincial, in the matter of transitional costs. Therefore, I would say the role of government is crucial.

The second point I would make is, with respect to the character of the costs, you have to get back to people. There are individual workers of all kinds and individual corporations involved in change. You want both to have help in overcoming the impact of changes in the trade laws they face.

With respect to workers, it is a question of assistance in training, retraining or moving. In the case of companies themselves, give them a fighting chance to increase. In some cases, it will be a question of increasing their levels of production, their equipment modernization, changing their product lines, or rationalization. These are the two major areas: changing the character of the plant so it can be competitive, and equipping the people who are caught in change for adjustment.

Mr. Ferraro: With respect to the adjustment process and the part the government has to play, which you just mentioned, could you elaborate on the posture the banks would take? Certainly, this adjustment process will have to see, to some extent, a change in posture from the bank's standpoint.

Dr. Neufeld: I would put it more broadly than that. I would ask what the accommodating posture of the financial industry would be, because it is not just banks. Here, we are perhaps talking about the need for longer-term capital for modernization, expansion and so on. Then you are in the area of their ability to get long-term capital through equity issues and long-term bond issues, as well as accommodating bank lines for operating purposes and so on.

Mr. Ferraro: I did not want the presidents of trust companies to telephone you tomorrow and swear at you. I was just going to let the bank presidents call.

Dr. Neufeld: I do not worry about calls from trust companies. It is a broad question. You are raising the question of the flows of capital to permit this transition. It is a very solid question.

Mr. Ferraro: I am also raising the question of the patience of banks.

Dr. Neufeld: Again, I would say the patience of all the players who provide the bundle of services needed; this includes investment dealers, the long-term investors such as insurance companies and so on. It is a very valid question.

4:10 p.m.

The key is to have a policy framework which establishes the fact that corporations or companies caught in the transition can be viable and credit-worthy organizations. Without that, private capital will not flow. It will not because shareholders would not permit it. Bank depositors would not permit the declines in interest rates they get for the sake of reducing costs on the interest rates being charged on loans.

We have to be very realistic about it. We have to have government policy of a kind that enables the corporations involved in change to be viewed quite properly as sound, solid and creditable organizations. If that is so, private capital will flow into that transition. If it is not so, it will not.

Mr. Ferraro: Are you saying government should have these

policies in place? I am not quite sure as to the posture of the banks. Are you saying that essentially their requirements and priorities would remain unchanged?

Dr. Neufeld: In the sense that I do not think any private institution is going to make loans that it feels will not be repaid, whether it is a bank, a trust company, a credit union, a caisse populaire or what not, or whether it is any organization in the United States, United Kingdom, Germany, France or wherever. I do not think that is a possibility. Therefore, if you mean it in that sense that the posture of the financial system would remain unchanged, my guess is it would.

However, I would go much further than that because lending now has become much more complicated than it used to be. We now have to have much more detailed knowledge of what is happening in an industry than used to be the case. We have sectoral study groups and research groups in the bank that try to tell us what really is going on. The bottom line is to try to find out what the risks are, what the good companies are and where the opportunities are so one can make more intelligent lending decisions. The process going on these days is exceedingly well suited to the kinds of changes that would emerge through adjusting to trade liberalization.

In other words, it is not too likely that the system in general would make foolish decisions just because of inadequate study of the situation. If the facts are that an organization can make that transition, it has to support policies so that it can be a profitable and viable organization. This may not have been so in past decades, but these days those facts will be known to lending institutions, at least to enough of them so their funds would flow in that event.

Mr. Mackenzie: You will acknowledge that this occasionally breaks down, which appears to be the case with the Northland Bank and the Canadian Commercial Bank recently with some of their loans.

Dr. Neufeld: You are right. It is not difficult to point out in retrospect individual instances where lending decisions were not very good ones. I agree. However, speaking more from what I see going on in the institution I know best, which is the bank, the emphasis is on knowing the needs of your customers. They do not have to come to you; they have all kinds of options. To reduce risks and keep your customers, you need a much more professional view of what is going on in their industry than you did before.

This sort of attitude, expertise and knowledge would be particularly valuable in a period of rapid change, whether it is produced by rapid technological changes, as is the case now, or whether it is produced by changes introduced by trade liberalization.

The Acting Chairman: Maybe we can get back to the speakers' list I now have: Mr. Brandt and then Mr. Morin-Strom.

Mr. Brandt: I have a couple of questions. I may well be able to wrap them into one.

I want to get some feel for your attitudes with respect to the transitional period or phase-in period. There are some who have suggested that perhaps a decade or longer may be necessary for an appropriate adjustment period to sensitize the economic restructuring that would be necessary in this trade liberalization proposal. What time frame do you think is realistic from a banker's perspective?

Dr. Neufeld: I think one would be well advised to be pretty prudent. In other words, if you put in place transitional policies, you should say: "Let us have a look at it for a decade. Let us assume it is a decade."

It is the case when you look at developments in the European economic community during the period of liberalization. Much of the change was much swifter and digested much more easily than they had thought when they were planning. It may well be that would also be the case here. Quite a lot of it would be done before the end of the decade. But when you are talking about retraining people and permitting corporations to adjust to new circumstances, it is best to err on the side of caution.

The other point I would make is that the sort of trade negotiation that I have in mind, and the sort of results that would flow from it, is itself a process that is going to take a certain time. I do not think we are talking about a year. I read some comments in the press that this is a two-year process. You never know how fast negotiations will go but it is a safe assumption that they will go longer than you think.

Therefore, I would say in a process--a neglected process--which involves trying to get some broad reductions in trade barriers as well as special arrangements for particular sectors, particular situations dealing with exemptions, you have to argue that out. That process will take time. For Canadians it is much better to go into it saying, "We are talking about something that, let us suppose, is for 10 years," even though my personal guess is that we would see a lot of benefits in five.

Mr. Brandt: One of the areas in the brief was touched on by my colleague from Guelph, and perhaps you could expand upon it. What would be the benefits to the banking industry? You have not really amplified that too substantially in your remarks earlier.

I would assume you may have a twofold interest in being here. (1), you are advocating some positive elements with respect to free trade concepts, and (2), is there something in it that would be of benefit, assuming liberalization of not only the industrial exchange between our countries but the economic and financial exchanges as well? Could you perhaps expand on that a little bit? What would the impact be, not only on yourself but also on the other large banking institutions in Canada?

Dr. Neufeld: I can say quite seriously that I am very pleased you posed that question because here is an area where I find myself speaking much more as someone who looks at it from a general point of view rather than just a banking point of view, partly because of my own background. It is also because of the nature of the impact of this on banking.

The only advantage I can see to the Canadian banks--I say "only" because it is very important--is the fact that it would lead to a healthier Canadian economy. That is terribly important for an institution like any of the large banks or other financial institutions.

If we can see that we will be more competitive in trade, we will see our trade volumes grow, we will have a higher rate of productivity, more jobs and better living standards, that reflects on the flows of savings into the banks, it reflects on the growth of our institutions, just as it reflects on the growth of most other viable national institutions. That is the major thing.

As to the competitive impact on banks, because the Canadian banks for historical reasons have for a long time been substantial international institutions, nothing much would really be changed in that respect. We have more than 50 foreign banks in Canada. We ourselves meet all the competition of the international banks and the international market. We are faced with very fierce competition everywhere. It is wide open, basically international because of the integration of international financial markets over the last 10 or 15 years. I do not think there would be much change in that.

4:20 p.m.

It is vitally important for banks such as the Royal Bank of Canada and other big banks to have a strong Canadian economy. It is our base. If we have a weak home base, that weakens our position in international markets as well. That is the major advantage.

Mr. McFadden: I have a question about investment in new plants in Canada in the future and also about what might happen if we were to evolve towards a liberalized trade arrangement in connection with existing investment in Canada.

Perhaps you could start with existing investment. It has been said that if we headed into free trade, branch plants or subsidiaries of the United States would tend to fold up here, head back into the United States and supply the Canadian market from their US plant or plants. I would like to get your comment on that, first of all.

Second, since the Tokyo round started, of course, there has been a steady reduction in tariffs. During that process has there been any noticeable dropoff, from what your figures indicate, in American investment in Canada for that reason? There could have been other reasons, but can you find any indication that it might have dropped off as a result of some liberalization of trade?

Dr. Neufeld: On your first point, would US subsidiaries go back to the United States, those subsidiaries that were located in Canada simply as a device for jumping over the tariff wall, if that is the only reason for their existence, would probably have to adjust. But the point I would make is that if we have a situation in which our costs are more than competitive in

important areas with those in the United States, then the readjustment would not be the simple one of pulling out their plant and supplying from the United States, because they would know and others would know that they are better off to rationalize their production where the costs are lowest.

I would think that certainly hot-house subs that are here only because they are protected by tariffs would not survive, but their reorganization might well take the form of taking advantage of the lower production costs in Canada. If they did not, their competitors would. That is the kind of process I see.

Let me emphasize that the crucial point here--and I think it is a point so often overlooked, but it is a fact--is that Canada in many important areas can be very competitive if the volume of production is large enough. It is in the commercial interest of companies that have confidence in the environment, confidence that the North American market will exist, to locate in Canada.

On your second point, tariff reductions and the question of whether this has led to a dropoff in US subsidiaries operating in Canada, it is awfully hard to say. There was a big dropoff in net direct investment in Canada as we got into the 1970s, and there was quite a flow of direct investment into the United States, but there were so many things going on. The national energy program was one of the big factors affecting the flow of funds in both directions. It is impossible to screen that out of the figures and say what is left.

As I sense it, we are now seeing a turnaround in that again; we are again seeing the re-emergence of long-term capital flows into Canada. But on the basis of statistics I have seen, I cannot answer your specific question in that way. I do not know how many subs have left Canada because of reductions in tariffs.

Mr. McFadden: That is, of course, another concern in terms of the generation of new investment in Canada in the future. I wonder whether you have any observations about investments by Americans if we had free trade. Would it strictly be related to our lower costs up here? I assume that would probably be the main motive.

What about European and Oriental investors? Have you any indication from your work in analysing the economy generally or any evidence in terms of the bank's offices abroad or in what you are now doing with regard to lending, whether we would gain or lose in investment to the United States or other countries if some form of a liberalized trade arrangement were to be worked out.

Dr. Neufeld: That is a very important element. I touched on it elliptically in my introductory comments. I travel a fair amount, including in Europe, and I have talked to quite a lot of businessmen, particularly in Germany. They have raised with me this issue of whether they would have access to the US market if they located in Canada. Up to this point, if one had to be honest with them, as one has to be, one would say it is not clear.

We are not sure where trade policy is going in Canada. However, some of them see advantages if that is assured to locate in Canada; the advantages are cost. Once a foreign company makes a decision to go into a venture in North America, that is, a greenfield project, a starting-from-scratch project, it does not matter to the company too much whether it puts it in the United States or Canada.

What they want to do is put it where they get the best return on their investment. If their calculations are such that Canada is relatively attractive because of costs and so on and they have an assurance of access to the US market, it is a straight business decision to locate in Canada. However, it is not if they first have to build that plant only to serve the Canadian market--that does not make any sense in most cases--and it is not if they feel something could happen and they would spend millions of dollars on a new establishment and find their US market cut off. The risks are too great. Then they would be better to locate in the United States right at the start.

Judging just from my discussions and some of the decisions that have gone into plant locations, I have the feeling Canada would get a share of the foreign investment that wants to come into North America.

Mr. McFadden: I have one final comment. Maybe I should tell you tDr. Neufeld was seminar leader for me in economics back when I was at the University of Toronto 20 years ago.

Mr. Chairman: You should know all the questions.

Mr. McFadden: Some of the mistakes I may make on economics--

Mr. Brandt: Where did he go wrong?

Mr. McFadden: --are partly his responsibility.

Interjection: We will not hold this against you.

Mr. McFadden: One final matter I did want to ask you about was alluded to by one of the questioners earlier on, but I cannot remember whom.

We had a presentation yesterday from the Ministry of Industry, Trade and Technology touching on our trade balance. We seem to have a very favourable trade balance in auto and auto-related products. We seem to have a favourable trade balance in natural resources. However, when we looked at what the ministry defined as low, medium and high technology, we had major deficits that are growing in high technology and it was really quite a significant deficit.

I wonder if you might be able to shed any light from your experience or the bank's research as to why that has occurred and why the gap seems to be widening. Have you had a chance to look at that? Do you have any input you might give us on that particular matter?

Dr. Neufeld: I probably cannot give you as good an answer as the question deserves. You mentioned the trade balance in automobiles. Let me say first that case is very interesting, particularly since it is an industry of great importance to Ontario.

4:30 p.m.

We recently did some work to try to answer the question of what has happened to costs in Canada relative to the United States in the automobile industry, not over one year or two years, but over a stretch of time. What the figures seem to show is that our advantage in costs relative to the United States has improved markedly in the last 10, 12 or 15 years.

I do not think it is just some accident that we are doing well in cars. I think it is a case that shows we can produce cars more cheaply than they can in the United States. While the auto pact is a funny kind of free trade, a very special case, regardless of the particular characteristics of that agreement, it did achieve a great unification of the North American market and it did facilitate substantial specialization and increases in production runs and so on.

It did have the characteristics of what you expect from trade liberalization. That is a good case because when that trade liberalization through the funny route of the auto pact was happening, we also had an improvement in our relative cost advantage.

Those other industries--here my question is probably totally inadequate--are so new and varied and specialized that it is harder to get one's hand on what is going on than it is with a big industry such as the automobile industry. My observation is not based on detailed studies, which are very difficult, but it would be that it is a very young industry and has not had yet the shakedown that is needed to establish a degree of stability for particular parts of it to find their niches.

Given time with trade liberalization and knowing full well that we have just as good people, just as good technicians and just as good managers as those in the United States, with access to the larger US market the high-technology industry in Canada would develop particular areas, but that is a subjective judgement that cannot pretend to be based on analysis because it is not.

Mr. McFadden: From your view of the technology model, your feeling is that one of the reasons we have turned out not to be as competitive in high technology is that in the small market here we have not managed to develop sufficient production runs and a sufficient market to enable us to become competitive.

Dr. Neufeld: The industry has not reached that degree of maturity in Canada. We were behind the times. We were behind the Japanese and behind the Americans, who were at the forefront of technology. I guess as a nation we have only ourselves to blame

for that. We are now paying for it. What we should not do is seek false solutions; we should get the right solutions.

The right solutions are to ensure that we have the flow of technical expertise, that we have the training, that we have access to world technology and that we apply it, not just in the technology industry but in all industries, knowing full well that the example of other industries is that if we do that, we can be fully competitive. Out of that will come our share of the North American market in technology, as we can have it in other industries. To this date, we are paying for being behind in that game.

Mr. Morin-Strom: You mentioned earlier you had sectoral study groups in your bank look at the major industrial groups in the Canadian economy. I would imagine that your resources to be able to look at that industry by industry are as good as anyone's in Canada, with the possible exception of those of the federal government and the Ontario government. I wonder whether you could tell us what specific studies you have done on an industry-by-industry basis and what the results of those studies are.

Dr. Neufeld: I should explain that our studies have to be very much related to our concerns, which are what is happening in the energy industry and what is likely to happen in the energy industry--we have a lot of customers in that industry--or what is happening in the automobile industry. It is from the point of view of the concerns in one's portfolio.

In terms of what sort of structural adjustments would be involved if this industry or that industry faced trade liberalization, those details have not been the focus of our industry studies. In spite of the fact that we have some resources, we certainly do not have unlimited resources.

There are so many industries, industry groupings and subgroupings that we are limited as to how much we can push our research in any one area. In spite of that, we do get a feel for a change in industry because we have to get a feel for it.

I would think the nature of our questions and the character of the research we would be pursuing would change a little bit if a particular industry had to adjust to trade liberalization. But I would repeat that, based on what our studies tell us about change in industry, there are two points I think stand out.

The first is you cannot make too many generalizations at the level of industry because the differences between the companies within an industry are so great, from some that are really very good to others that are going to have a difficult time surviving. That is one thing that does emerge from the studies we do.

The other point is how remarkably flexible an industry is when it faces change. It has no choice but to react to change very quickly if it wishes to survive. The period of the last years has

been a period in which we have seen change in a number of industries, whether it was telecommunications, transportation, transportation equipment, aluminum, motor vehicles, paper and allied products, entertainment, or textiles. They have all been industries in which there has been very substantial change, and that will go on.

Mr. Morin-Strom: So you are unable at this point to tell us which industries will be the gainers and which will be the losers from it?

Dr. Neufeld: As I mentioned before, I do not think it is industry. Generally speaking, it is not an industry issue; it is a company issue. I do not see the wiping out of any industry in Canada and I do not see any particular industry as the clear gainer. What we are seeing is an industrial restructuring process whereby the big change will be within industries, not between industries.

Mr. Morin-Strom: Do you not have the results on a company-by-company basis either? Have you not really studied that?

Dr. Neufeld: On a company basis?

Mr. Morin-Strom: Yes.

Dr. Neufeld: Only within the context of the normal thing to do. If we have a customer in a particular industry, we do that sort of research.

Mr. Morin-Strom: Certainly, one of the issues involved in the overall trade deficit that the United States has seems to be the American dollar. I do not know, but the consensus of opinion seems to be the American dollar is the number one critical issue.

Could you forecast where you think our currency, in relation to the American currency, is going and what it might be five or 10 years from now? What is the long-run proper level, given competitive factors today, and so on?

Dr. Neufeld: The Canadian dollar today is about 73 cents. We do analyses of costs in the United States and costs in Canada and analyses of capital flows and so on. While this is obviously a very difficult area, our own judgement, on the basis of these analyses, is that the Canadian dollar at 73 cents is very close to where it should be.

We have a little better sentiment now in foreign investment policy than we had before. We have our costs well under control today. Our costs are not rising faster than they are in the United States, and we have clearly seen that our exports are competitive by the existence of our trade surplus. These factors lead me to feel the Canadian dollar is on a pretty solid foundation where it is sitting today.

4:40 p.m.

If you ask where the Canadian dollar will go, I do not know, but I would think there is a range of maybe 72 to 76 cents or something like that. I would be most astonished if the Canadian dollar went back to 90, for example. I might be wrong, but for what it is worth--

Mr. Morin-Strom: Are the European currencies properly valued today too?

Dr. Neufeld: No, not against the Canadian dollar. Probably there is room there for a further strengthening of European currencies, but not that much any more. Remember that the low of European currencies was reached in mid-February 1985. Since then, the deutsche mark and the French franc have risen by about 20 per cent. The British pound has risen by more than that, and the Japanese yen has risen by a little less than that. Those are very major changes in exchange rates since the peak of February.

Let us not underestimate the amount of change that has already occurred. When I say against the US dollar, because the Canada-US relationship has not changed very much, it is also that change against the Canadian dollar since that time.

It can go some more. Our own feeling is the trade-weighted US dollar could decline over the next year by five per cent. Let us not overestimate the importance of what I am saying because, goodness knows, exchange rates are one of the most difficult things in the world to predict. I just answer your question as honestly as I can. Our own judgement is that there is still some room for a decline in the Canadian and US dollars against the major European currencies and the Japanese yen.

Mr. Morin-Strom: Finally, on the question of protectionism in the United States, if this bilateral trade arrangement fizzles out for one reason or another--because either the Canadians cannot live with some of the things Americans want or the Americans cannot live with some of the things we want or whatever--what do you think the result of the protectionist mood in the US Congress will be? What type of measures do you expect will be passed that Canada will be subject to?

Dr. Neufeld: It is likely to be action against specific commodities one by one rather than global actions. For the most part, that is how the issue arises in the political process in Washington. There is concern about our lumber exports, steel exports, some of our fish exports and so on. That attracts the attention of an industry grouping and that attracts support among a certain group of congressmen, which reflects itself in a bill in Congress, and so it goes. My feeling is that it would probably be a question of disruptions to trade in particular areas, one after another.

Mr. Morin-Strom: Will these continue for an endless period? Is it an endless track in the United States, or is it related to the value of the dollar and their trade position now? Is it a current problem?

Dr. Neufeld: We are in a very difficult period right now. We have not seen so many protectionist bills around the Congress in the post-war period as it exists at present, nor has there been as long a list of particular Canadian exports that seem to be under some kind of threat as we see now.

We are in a special period because the US dollar went so high and their balance of payments deficit is so large. The political pressure is particularly strong because of that, and it is the case that a lot of American industries are being hurt by the expensive dollar.

It is true they have a legitimate complaint, but it is not against us. That is the point. Their complaint is against policy that led to the very expensive US dollar. We are an innocent bystander who gets hurt. The political reaction is often not against policies that created the situation but rather against the particular commodities that seem to be providing the difficulty in the United States.

If the US dollar goes down, the worst of this pressure will subside. I do not think it will all go away, because there is now a certain momentum in the United States that encourages groups to complain to Congress and seek protectionist actions. This is one of the reasons, though not the fundamental reason, why I think encouraging a trade liberalization process will achieve benefits. It will lead the American administration and congressmen to think in terms of decent trade relations with Canada, and that would influence in an important way how they handle individual trouble spots.

However, if there is no negotiation, no general impression that Canada wants to develop improving trade relations with the United States, then I fear those pockets and islands of protectionist forces will continue, not at the strength of today if the US dollar goes down, but they will always be there.

Mr. Ferraro: I have one basic and general question. Subjectively, I could argue that the Canadian banking industry, and to some degree the financial industry as a whole, is one of the most stable and sound in the world. Recent developments might cast doubt on that statement, but by and large the industry is pretty sound. What is your opinion of liberalization, free trade or freer trade, if any, with the United States as far as the banking industry is concerned?

Dr. Neufeld: I hope I have understood your question. Was it related to international liberalization of the banking industry? Yes, that is what I thought.

As I mentioned before, it is now remarkably open. We have almost 60 foreign banks in Canada. I think there are 58; I cannot be sure. We had their assets ceiling raised from eight per cent of the system to 16 per cent. We have no limits on the movement of Canadian borrowers into the international markets, where they deal with all the major international banks.

In a competitive sense, we in the financial services area are already in a situation of remarkable free trade; so I do not see that there will be much opportunity for further liberalization in that broad sense.

There are particular areas where you get into banking-related issues: computer services, for example, where there are now constraints, limitations, barriers and so on and where there are very difficult noneconomic issues in the area of data processing, data banks, transfers of data and so on. The whole question of privacy and confidentiality is a noneconomic issue that is of great importance. I would think that trade negotiations would have to address those kinds of issues.

Mr. Ferraro: I should elaborate a little on what I was getting at specifically. From the perspective of coming into Canada, I agree with you that we have made vast changes in the past few years. But from the perspective of Canadian banks or financial institutions going into the United States, it is my understanding that each state pretty well runs its own show, and if a treaty were to come about, they would be subject to the national treaty. I wonder how the hell you would overcome all the internal problems from that standpoint.

4:50 p.m.

Dr. Neufeld: I agree with you that in some industrial sectors the fact that the United States is a federation of states and we are a federation does not make it easier. I have heard the same question posed to me by Americans about Canadian policy: How can a national agreement bind the provinces in areas of their own jurisdiction? So there is that complication on both sides of the border. I suspect that in some particular pockets of areas it will lead to a long and difficult technical discussion. How can they bind their states to an agreement in tricky areas, and how can the provincial governments and the federal government in Canada come to an agreement?

In general, however, I do not see that as a major obstacle to liberalization, even in the financial services area, if for no other reason than that there is already such open trade. In spite of all those obstacles, there is already a very free flow of financial services. In that area, it would be a question of refining and making sure new obstacles are not imposed and of keeping trade open. The issue is much more fundamental in certain areas of manufacturing than it is in the financial services area.

Mr. Ferraro: Mr. Chairman, I am sorry; I lied. I have one other question and then I will for ever hold my peace today.

The Acting Chairman: Everybody is getting one question.

Mr. Brandt: Get it in writing.

Mr. Ferraro: I said, "For today."

On page 6 of your submission, Dr. Neufeld, you talk about foreign investors, and my colleagues asked questions essentially about that. The second-to-last paragraph says "they would not do so if access to the US market did not exist or if there was great uncertainty over how long it would last." I assume we are talking about a treaty that would enshrine an agreement as a result of that. I posed the same question to Bob White a week or so ago, and his response was that he did not feel the treaty would be honoured.

Could I have your comments on how you would enshrine the agreement and whether, if it were a treaty, you feel the United States, or Canada for that matter, would honour it?

Dr. Neufeld: I certainly feel they would honour it, and I certainly believe Canada would honour it. We have a fairly good history of honouring commitments. When all is said and done, so does the United States for the most part. I do not have any concerns on that score. I think both countries have a certain sense of morality in these things but also, and perhaps more fundamentally, it is in their own interests to honour treaties. It is not in their interests not to honour treaties.

With regard to the kind of treaty, you would have to provide what, as you quite rightly point out, I have indicated is a necessity, and that is certainty over its continued existence. It has to be an arrangement that is viewed as permanent. I mentioned that we have to look at it as being for at least 10 years; we have to look well off into the future. It has to be an arrangement that is seen by business to be reliable. If it is not reliable and could vanish over a short period, it does not give business the planning horizon it needs.

When one gets into the details of the treaty, an important part will be providing for the handling of difficult situations, trouble spots, adjustment problems and unforeseen developments. The treaty would have to be comprehensive, not just in dealing with the parameters of trade but also in processes for dealing with difficulties. Given that understanding at the front end, I think the arrangement should be viewed as of a long-lasting character.

Mr. Ferraro: You said "long-lasting" instead of "permanent;" you mean permanent.

Dr. Neufeld: I am happy to stay with "permanent."

Mr. Mackenzie: I have three or four questions. First, Dr. Richard Lipsey seems to be the guru of the free traders, and yet I run into the same thing in your brief that bothers me as bit as we ran into with Mr. Lipsey and some of the others. In your case, you said it is not industries, it could even be between companies, where we see the growth or the loss. But nobody can give us anything other than an article of faith: "Have faith that the market is so much bigger we are going to see the gains."

On page 7 of your brief you say, "I agree with those who believe that the time has come to leave generalizations behind and

become specific as far Canada-US trade negotiations are concerned." Yet two paragraphs before that you say, "Perhaps one of the most difficult political aspects of any trade liberalization process is that the benefits are more dispersed and therefore less visible than the costs, even though they in fact outweigh the costs." But you do not know where, and nowhere are the people who are talking to us laying out the benefits.

Regardless of the number of briefs that may have ended up on either side of this issue, we have had some pretty specific losses laid before us in this committee. I am still looking for the answer to my colleague's question: Where are the gains?

Dr. Neufeld: I guess we will never get to a point where we will say that this company, that company and another company are each going to gain 15, 20 or 25 employees as a result of this. If we feel we can get that degree of knowledge, we are being naïve. That will never happen, nor has it ever happened in other trade liberalization exercises.

The European Community had an exaggerated notion, as far as I can judge, as to what the cost would be. One of the reasons was that they thought in the conventional terms of industries vanishing. It did not happen. It was this business of industrial readjustment.

I will say this: I know of no principle in economic processes that has been challenged unsuccessfully for such a long period as the notion that when you increase trade between countries, both gain.

Mr. Mackenzie: In fact, what you are saying is that the market is there, and we have to have some faith in it.

Dr. Neufeld: It is no greater faith than a corporation that feels it has a good idea and has applied its best judgement. It feels it is competitive. It puts \$10 million, \$15 million or \$20 million on the line to back up its judgement. On average, that is what companies do all the time, and the fact that companies are growing and the economy is growing indicates that, on average, they are right. I do not think this is a different kind of faith than is made by policymakers, by individual corporations and by industry groupings all the time. I think it is of the same order.

Mr. Mackenzie: Reference has been made to the comments of Mr. MacDonell, the deputy minister, who talked to us yesterday. He presented some fairly graphic charts that pointed out what one of my colleagues referred to; that is, we have a healthy surplus in the resource field--there is some question as to how much more we can gain in that field--and we have a healthy surplus in the auto pact situation, but in five short years we have dropped substantially in the low-tech and medium-tech areas and more than doubled our deficit in the high-tech area.

What he also did in the course of his presentation to us was to ask what reasonable grounds there were to assume--there is already a lot of freedom in that field as it is--that what had happened in the past five years, the more than doubling of our

deficit, was going to be assisted by removing any and all further barriers if we did get into free trade talks.

Dr. Neufeld: I find it quite interesting that in the examples you gave, where we have this strong trade position, those are exactly the cases where we have essentially free trade. In the resource industries, that is as free as the world.

Mr. Mackenzie: It is something everybody wants too; it is also capital-intensive and not labour-intensive.

5 p.m.

Dr. Neufeld: In the automotive agreement, while it is an agreement with conditions and so on, the essential thrust of it is to take advantage of free trade, and there we have a surplus. When you get into the other examples, those are exactly the areas where we do not have that free access to the United States. I could almost have used that example to make the other point.

Mr. Mackenzie: Can I tell you, and ask for your reaction, that with the exception of my colleague Mr. Brandt at one stage, you are the first person I have heard say that the auto pact was free trade. We have had others very clearly define to us that the auto pact was not free trade, that it was (1) managed trade and (2) content legislation. From my obviously limited knowledge, it seems to me that is exactly what it is, so I am interested in your categorization of the auto pact as free trade.

Dr. Neufeld: If you read back the transcript of what I said, I did not say that. I said there were a lot of conditions and constraints, but the essential thrust of it was to take advantage of a larger market. I could go into the details of the constraints we are all familiar with and the content requirements, the issue that only industry people can engage in trade in parts and final products and all those constraints.

However, I think it would be appropriate for Canadians to ask themselves now, having got all the advantages of a larger market on a kind of free trade arrangement--I accept the view of the constraints; in fact, I mentioned them--whether, as a nation and as an automobile industry, we would be better off or worse off if the existing constraints were no longer there.

Mr. Mackenzie: Would you support this kind of an approach, content legislation or planned trade, in other sectors?

Dr. Neufeld: I would not begin to suggest that you could transfer those detailed arrangements into other areas. The facts are so different. This is why we have felt all the time that in trade negotiations there should be substantial paying of attention to individual sectors but not with a simplistic notion of saying, "Let us do there what we have done there." They are different industries with different players, conditions and products.

Mr. Mackenzie: What is your reaction to a fair body of people who suggest that we enter into free trade talks? One of the things that will be opened up and at risk will be the auto pact.

Dr. Neufeld: If the approach to negotiation is, "Let us try to move as far as we can on a broad front, but let us talk in terms of exceptions and of transitional arrangements," I suspect that sort of qualification immediately gets you down to the sectors. We have to look at what is happening in sectors within the context of these negotiations.

I would not exempt the automobile industry. If I were a Canadian, I would not exempt the automobile industry because it may well be that we have more to gain than lose in modifying the arrangement. I mentioned before that, if you compare 1970 or 1972 with today, our figures seem to suggest that we are in a better competitive position with the United States today than we were then. We also know we have a big surplus in that area. If it were in our interest, why would we not wish to see some changes that would increase our share of the US market?

Mr. Mackenzie: Do you think you would carry--

The Acting Chairman: Mr. Hennessy has a supplementary to your previous question.

Mr. Hennessy: It is the same tone as Mr. Mackenzie has. No doubt each side is going to try and play its trump card. It is going to be like a poker game. Is the United States not going to come and say to us that in its opinion the auto pact is free trade? It is an interpretation of how you look at it. We may agree it is a pact but at that time we may have some things that are very valuable to us. They are going to pit one against the other to see what concessions they can get. They are going to ask for things that are going to be very difficult for us to give up, or even to consider giving up.

I assume, therefore, that probably will come into the discussions. We only have so many aces to play and they have a lot more than we have. They have two decks and we only have one. I am saying to you that is liable to be the argument and they are liable to interpret it a different way. There is where the argument starts.

Dr. Neufeld: It certainly will be a negotiation. I guess if I were on their side, I would bring to the table all the trump cards I could. If I were on our side, I would bring--

Mr. Hennessy: You would bring a marked deck.

Dr. Neufeld: --our trump cards. But if there is the view that history says we are worse negotiators than they are, I do not believe it. If you look at the history of our negotiations in the GATT and in our relations with the United States, there is every reason to believe that Canadians are just as good negotiators as anybody else. So I do not worry about their coming forward, as they must, with their strong points, because we will come forward with ours.

Mr. Mackenzie: Do you think you would carry the parts and the auto industry with you on that? I know you would not carry the auto workers' union with you on the idea that we open up the auto pact.

Dr. Neufeld: I do not know whether one would carry it, and I am not attempting to address the issue of whether it would carry the support of this group or that group. I am speaking as a Canadian who simply asks, "If on analysis it looks as though we can do better than we are doing under the present agreement in the sense of getting a bigger share of the US market, then why not do it?"

Mr. Mackenzie: Two fast questions, Mr. Chairman, and then I will be finished.

The role of government in transitional costs is crucial. You made that argument a little earlier. I want to know exactly what you are saying to us in that. Are you saying that the government has to be prepared to play a larger role? Does it have to be prepared to pick up the costs to workers of the transitional changes that are going to be there? We have nobody yet who has not told us there are going to be some major transitional problems involved in a free trade arrangement.

Dr. Neufeld: For the reasons I mentioned, I think the government bears a substantial responsibility with respect to transitional costs. I would say it has already accepted that responsibility in equivalent areas. There are programs to facilitate the movement of people from one place to another and programs to encourage retraining, education and so on, so I do not think that is a new issue for government. It seems to have accepted the fact that it cannot ignore people in transition, and this would be an extension of that.

Mr. Mackenzie: If we follow the theory that is in your paper, that this is the move and that we will end up so much better off for it, can an argument not be made that because there are going to be heavy transitional costs that will affect workers, maybe this healthier economy you are talking about, or the companies, should bear the cost of the transition, and not necessarily government?

Dr. Neufeld: Government does not have money of its own. It gets money from me, from you and from companies, so my answer in that sense is yes. To be realistic about it--and I was probably at fault in saying it should be government--I think the nation--and I did use that term--through tax revenues and so on would have to finance these transitional costs.

Mr. Mackenzie: That makes good sense if it is a fair tax system. There might be some argument on that.

I just have one more question.

Mr. Brandt: May I ask a quick supplementary on that?

Mr. Mackenzie: It depends on how quick it is.

Mr. Brandt: Very quick. Would you not extend that same argument about the umbrella of a safety net for workers to investors and others who may be involved in an industry that may go down? You are talking about the industry helping the worker,

but if the industry goes bankrupt or goes out of business as a result of free trade, do you not feel that in some respects the government and the country have an obligation to assist all those who are in some way harmed or to whom some difficulty has been caused as a result of free trade?

Dr. Neufeld: I agree. It is only good common sense that where you have a company that has good management but has products and production volumes that suit a tariff situation and not a free trade situation, the nation should not let that organization go down the tube. Therefore, I think there must be transitional programs that will enable those sorts of corporations to adjust. If you permit those corporations to adjust, you are, through that, also dealing fairly with the people who have invested in the corporations.

5:10 p.m.

Mr. Mackenzie: I would have no difficulty with that argument, having been very much involved both in my community and in others with some of the plant shutdowns, if I had seen evidence that the workers who had lost their jobs in those plants had come anywhere near being as well taken care of as the rationalization that was allowed, whether it was Consolidated-Bathurst or a number of the companies with which I have sat in on meetings.

The last question I have is that I notice all the way through your brief you use the phrase "trade liberalization." I think we have had it before, but it seems to me in a free trade debate, the words get changed to "freer trade" or "enhanced trade." Why not just use the term "free trade"? Why the switch? Everyone seems to be afraid of free trade when we get into this in detail.

Dr. Neufeld: Yes. For my part, I do not think free trade describes the situation, because when you have a process in which you have ingredients, such as phase movement, transitional arrangements, emergency measures for particular circumstances--

Mr. Mackenzie: These ingredients are all dealing with the people who are going to be dislodged from--

Dr. Neufeld: These ingredients are all dealing with people. It seems to me it is just not common sense to use a simplistic notion such as free trade. I use the term "trade liberalization," or sometimes "freer trade," because I want to focus on the fact that it is not a simple process. It is not just a question of tomorrow morning saying there are no more tariffs. If I thought it was that simple, then I would use the term "free trade," but it is not. I think it is better to use other terms which do not raise the emotions that are raised if one thinks of a very rapid ending of all former trading relationships.

Mr. Mackenzie: You are saying it is easier to sell without the words "free trade."

Dr. Neufeld: No, I take exception to that. I am certainly hoping to give the impression that mine is a fairly

honest explanation of the process I see. I do not want to sell anything. I really do think it is sensible to move in a measured way and not by a sudden removal of all barriers. If you do not have that, then I do not see how you can call it free trade in that simplistic way.

I hope you agree with me, sir, that my attempt to respond to the question was an honest one. I do not want to call things by names nor do I have the inner motivation that would cause me to say, "I really want free trade, but I am using fuzzy words to hide meanings." It is not that at all. I think trade liberalization does describe the process a little better than free trade does.

Mr. McGuigan: Dr. Neufeld, one of the common trends that has come through the presentation is that we preserve our sovereignty and also our institutions, social programs, unemployment insurance, hospitalization, and all those items. There seems to be a common fear that in negotiating with the United States, we are dealing with a country that has none of those programs of its own.

From one of your last remarks, one of the things that comes to my mind is that the United States has trade adjustment legislation that has been operating for several years, largely to take care of industry that has fled the United States and gone to lower-cost Asian countries. From your knowledge of our Canadian economy, our social system and the American system--and I am very happy to hear you say you have a lot of faith in our Canadian negotiators, as do I--could you comment on whether we have many arguments to counter any the Americans might make that we should junk all our institutions and settle on their system?

Dr. Neufeld: Yes. I might mention that I encountered this situation in a very explicit way once when I was with the government of Canada negotiating the Canada-United States tax treaty. There was extended argumentation about the tax systems of the two countries. Some of the US argumentation was along the lines of, "Your tax system is like that and therefore it is an unfair advantage," or that sort of thing. This led to discussion. In the end, I am left much more with the impression of an openness of mind and reasonableness to listen to and analyse facts than anything else, because we did in the end get a tax treaty.

Tax systems are quite different between the two countries, and there was a decent, intelligent discussion, negotiation and agreement. I do not see why that would be any different in this kind of negotiation. It is clearly not the case that we could jeopardize our social system. That would not be an element of discussion. Nor do I think it would be made an element of discussion; if it were, it would be one of those things on which our negotiators would have to take a firm stand.

I will make another point. The great part of our social program does not, even in its impact, have anything to do with trade. If Canadians wish to have, as they do, a national health scheme, a good one, and they wish to pay for it either through higher direct or indirect taxes--one way or another someone pays--that does not have anything to do with trade flows, nor does

it even affect them. Similarly so for unemployment insurance systems and welfare support systems. Therefore, even with regard to it being a substantive issue, I do not think it would arise in most of the areas of our social system. The one area where it might begin to develop, and it would have to be addressed squarely, is in things such as regional development.

Mr. McGuigan: I appreciate your answer. In the event that was not the American response, can you cite arguments where we could just as easily attack their system? For instance, could we say, "You have a more expensive medical system than we do in that your average doctor makes \$225,000 where our average doctor makes about \$119,000"? Do we have lots of areas where we could respond if those arguments were made?

The reason I pose the question is that a number of people tend not to believe what you have said, not from a personal standpoint, but they tend not to believe that argument.

Dr. Neufeld: We do have some very strong things to say. If I were given the task of developing that argument, I would start with the point I have mentioned; that is, to show that in many of those areas the social arrangements have nothing to do with trade, they will not influence the outcome of trade and therefore they are not part of the discussion. With respect to illustrating that with specific examples, as you had in mind, one could have ample illustrations. You have made a very good point with respect to costs of medical care. In the United States, it costs workers a lot more to have medical care than it does in Canada, in many instances.

You might say that perhaps gives some Canadian business an advantage. I do not know. But on the other hand, you could say, "Yes, but your direct taxes are lower and the man pays it out directly to the doctor rather than through the medical scheme."

This sort of issue is easily handled if you are dealing with open-minded, intelligent people. For what it is worth, my experience in negotiations has been that the impression I come away with is one of hard bargainers but open and intelligent ones.

5:20 p.m.

Mr. McGuigan: I want to make a comment--I am near the end--in regard to your thesis on restructuring. It concerns the International Harvester Canada Ltd. plant in Chatham, which is a truck manufacturing plant. About four years ago a decision was made on whether to continue a plant in Ohio and phase out or shut down the Chatham plant, or vice versa. They decided to shut down the Ohio plant, an older, high-cost plant, and keep the Chatham plant.

You would have to go into considerable detail. In that plant they make very large, heavy trucks, the kind that are used as fire engines, the big wreckers, logging trucks, very specialized trucks. They are made actually pretty much on the Japanese style of an individual truck. They have taken out the moving production

line they had a number of years ago and these trucks are all tailor-made. They are all sold before the plans are put on the factory floor.

Also in that plant they made what they call the Cargostar line, which is a lighter truck such as you have for delivery, and the ones that are made more or less to standard dimensions. I noticed in the last couple of years when they send them out of the factory, even these lighter trucks have no rear-wheel assemblies on them. You may have noticed some of those. You will see them sitting around a yard with the back end of the truck just sitting on metal horses, like a sawhorse. When a person comes in to buy a truck they say, "What wheel base do you want on the axels?" They put the finishing touches on at the dealers.

The end of the story is that International Harvester has now decided to take this lighter truck line and move it to Japan. It would be my thesis that we are already suffering some trade adjustments without making too many gains at the same time, although we did in the case of the auto pact. Because of the peculiar nature of the auto pact, we did gain there.

I wonder what your comment would be. Is restructuring going on right now? This is a specific example, which may be very unique. There may not be other examples. It is one I am aware of because I live near Chatham.

Dr. Neufeld: It is obviously a very important one. I was talking this morning in Montreal to the National Wheel and Rim Association annual meeting and we were discussing those developments in the automobile industry. It is clear that over the last decade or so Japan has increased its share of world production by about 10 percentage points and North America has lost about seven per cent of the world production. There has been that international shifting around of production.

Why is this happening and what is going to happen down the road? Two things are emerging. One is that we are seeing, and will continue to see, a fair adjustment in the Japanese yen which will alter the situation somewhat. Much more fundamentally--and one thing we have to realize ourselves--is the key point in my whole view of this question of negotiations; in the end, our only solution is really to become as efficient as possible through the adoption of the best possible technology and much better management-labour relations and better-trained people.

If we do that, we have a fundamental solution, not something that will go away through a change in regulation. That applies as well as much to the challenge being posed to the North American automobile industry as any.

I am quite interested in the fact that you now have about six or seven cases of Japanese companies developing plants in the United States and you have about two cases that are almost certainly going to merge in Canada, including Hyundai of South Korea. That is very encouraging because it does indicate that the simple notions about trade no longer hold. You have a situation

where investment follows trade. If you are competitive in certain areas, you will get a certain volume of production, even from the initiative of highly skilled business people in the developing countries.

The Acting Chairman: Are there any further questions? If not, we wish to thank you, Dr. Neufeld, for taking the time to appear before us today to present your well-prepared and extremely well presented brief. I know you have been busy today and your taking the time to be here this late in the day is very much appreciated.

The committee adjourned at 5:26 p.m.



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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, OCTOBER 3, 1985

Morning sitting



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Murray, G., Member, Board of Directors; Vice-President, Law and  
Corporate Relations, IBM Canada Ltd  
Neufeld, J., Vice-Chairman; President, Arconas Corp.

LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, October 3, 1985

The committee met at 10:07 a.m. in committee room 2.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: This morning we have members of the Canadian Business Equipment Manufacturers Association here. Mr. Hughes is going to speak for them, and his opening comments are in front of you. Members of the committee should be reminded that we have a brief from this association, which was received some time ago and was entered as exhibit 28. In case members do not have it here with them, they might wish to refer to it later.

Welcome, gentlemen. If you want to take over your own introduction, you can entertain questions from us later.

CANADIAN BUSINESS EQUIPMENT MANUFACTURERS ASSOCIATION

Mr. Hughes: My name is Graeme Hughes, and I am president of the Canadian Business Equipment Manufacturers Association. Thank you for allowing us to appear this morning. Let me introduce the two gentlemen on my left. On my far left is John Neufeld, who is president of Arconas Corp. and a vice-chairman of CBEMA. On my immediate left is Grant Murray, vice-president of law and corporate relations with IBM Canada. Mr. Murray is also a member of our board of directors.

You may know that the association we are representing today has approximately 60 companies in its membership in the information processing, office equipment and office and contract furniture industries. In 1984, our member companies had revenues exceeding \$7 billion and employed about 50,000 Canadians from coast to coast. I would estimate that 80 to 90 per cent of our members' employees reside in Ontario.

The position we have taken in relation to Canada-US trade is set out in the exhibit that the chairman referred to, the submission we made earlier this year to the Honourable James Kelleher. In summary, all our members are critically interested in securing as well as enhancing Canada's access to export markets, and of course particularly the US market. We therefore support all measures consistent within the General Agreement on Tariffs and Trade process that would lead to greater security and, to whatever extent possible, enhancement of our trading ties with the United States.

All of you are no doubt aware of the growing protectionist sentiment within the US Congress and the potential for harm to Canadian exports in a number of key sectors. In view of this, the Canadian Business Equipment Manufacturers Association has advised the Honourable James Kelleher that the federal government should

take decisive steps towards negotiating a more comprehensive trade arrangement with the United States at the earliest possible date. Therefore, we are parenthetically pleased that the Prime Minister has already opened that process by talking to President Reagan.

This committee has heard a number of views, both optimistic and pessimistic, about the outcome of a freer trade arrangement with the Americans. You are going to hear a fairly optimistic view from us today, and I am sure this afternoon you will hear a fairly pessimistic view from Mr. Rotstein.

Clearly, there are different impacts on different sectors. As with any change, the transition to a freer trade arrangement will entail major adjustments in some sectors of the economy. For this reason, the length of time necessary to adjust to a freer trade environment will have to be negotiated very carefully and may differ from sector to sector.

Let me now elaborate on that basic position. As I have said, CBEMA represents companies in both the information processing and office furniture industries. Let me deal first with the information processing members.

Companies in the information processing industry comprise about two thirds of our member firms. Many are multinational, and about half of these firms are organized on a global product mandate basis. They export a very high percentage of their manufactured output. About 70 per cent of the exports go to the United States, and that gives you an idea of the importance of this market.

The information technology industry is truly part of an international industry. Its nature is such that research and development undertaken in one country could result in software development in a second, manufacturing and assembly in a third, and eventual sale to the final user in a fourth.

To ensure all components and services are integrated correctly, the plants exchange large amounts of information over telecommunication links daily. These links are vital to the efficient production of the information industry. Continuing advances in telecommunications ensures that worldwide integration of the industry will continue.

The future questions of where to build a plant or where to award a global product mandate will bring up such issues as productivity and market access. To the extent that Canada can secure or enhance its access to the US market and to the extent that Canadian productivity is competitive with alternative locations, we can look forward to continuing growth in Canada's information industry.

Most of the products traded between Canada and the United States in this industry sector incur tariffs. Most of these tariffs, however, are fairly minor, usually less than five per cent. For example, computer mainframes imported into Canada are subject to a 3.9 per cent tariff. Conversely, many items--peripherals, for example--which are exported to the United

States incur a similar tariff. CBEMA recommends that these tariffs be eliminated immediately on both sides of the border.

The tariffs on products entering Canada serve no useful purpose. They are not high enough to be protective; indeed, they are redundant given the international nature of the information industry. Second, they are costly to administer and produce negligible amounts of revenue. Third, and most important of all, they increase the cost to all other Canadian businesses wishing to invest in productivity-enhancing tools.

Parenthetically, I make the comment that the information industry is one of the leaders in improving productivity. By the application of information technology to other manufacturing or service industries, you improve productivity. If you increase the cost of that by tariffs, the cost is ultimately borne by a much wider base.

At the same time, the removal of the US tariff on Canadian exports would lower the cost of Canadian-made components and would increase the attractiveness of Canada as a place to invest and undertake further global product mandate activities.

Telecommunications equipment entering Canada, however, has a much higher level of duty: approximately 17 per cent. Because of technological change, the traditional distinction between a communications device and a computer has become increasingly blurred. CBEMA has now taken the position that tariffs on both computers and telecommunications devices should be eliminated immediately. Existing tariffs on both categories of equipment no longer serve a useful purpose. They are costly, both for government to administer and for industry, and they increase the cost of productivity-enhancing tools.

CBEMA supports the efforts to achieve greater co-operation in trade in the high-technology sector, as announced at the Quebec summit earlier this year. This includes such matters as allowing greater access for data processing firms and users in both countries to use the hardware and services available in the other country. It also means the development of common standards and understandings with regard to patent law, copyright law and legislation to fight computer-related crime.

Mr. Murray is our expert on the information industry and he can deal with your questions on that subject a little later.

I now get into the office furniture industry. CBEMA represents firms manufacturing about 70 per cent of Canada's office furniture production. The Canadian office and contract furniture industry tends to be more labour-intensive compared to the information processing industry. As you may have read in our submission to Mr. Kelleher, the smaller scales of operation make unit costs higher in Canada than those in the United States.

I should say parenthetically that it is important to remember we are speaking for a subgroup of the furniture industry. It is called the office and contract furniture group. It is not the residential furniture group. There are sector differences that you have to bear in mind.

For this reason, Canadian furniture manufacturers currently enjoy a tariff protection averaging 15 per cent on goods entering from the United States. This compares with an approximately five per cent tariff on Canadian exports to the US market, although this figure ranges up to 16 per cent, depending on the particular good.

Canadian office and contract furniture exports in 1984 totalled \$139 million; that is, 33 per cent of the Canadian production. As you can see, the industry has a high degree of dependence on the export market, primarily the US market, for its financial success. Estimates indicate the office furniture industry enjoyed a \$230-million trade surplus in 1984, and about 90 per cent of that is with the United States. As you can see, continued access to the US market is essential to this industry's livelihood.

Because of the potential for sudden disruption if tariff levels were to be reduced immediately, CBEMA has recommended to Mr. Kelleher that a more gradual approach to tariff reduction in the office and contract furniture sector be pursued. We have suggested a period of about 10 years. This would permit a full study of the adjustment required in the industry and would allow companies the necessary lead time to find new market niches for their products.

I know you have been given conflicting opinions as to whether there is a protectionist sentiment directed specifically against Canada or whether it is just being sideswiped. I want to bring to your attention--and Mr. Neufeld will speak to it more fully--a bill I have just become aware of this week, which was introduced by Senator John East in the US Senate. When I got this note, it said it is likely the co-sponsors would be Senator Jesse Helms and Dale Bumpers.

10:20 a.m.

The point of all of this is that it is a piece of legislation directed specifically against Canadian furniture manufacturers. It is called the Furniture Trade Act and it talks only about Canada. In a nutshell, it says the US trade deficit in furniture was US\$250 million last year. Canadian tariffs on US furniture are out of whack with the US tariffs. This bill, which has been drafted by the US furniture industry, would require Canada to lower its tariffs on US furniture products or US tariffs, currently as small as one fifth of the Canadian counterparts, would rise to parity in a series of steps over two years. It is tit-for-tat legislation, notwithstanding the fact that the sponsors say this is not protectionist legislation.

Mr. Chairman: They say it is not?

Mr. Hughes: They specifically say this is not protectionist legislation.

Mr. Brandt: It is fair trade.

Mr. Hughes: It is fair trade. It is their level playing field. I simply bring it to your attention to indicate that there

is plenty of legislation now appearing in the Congress which is aimed deliberately at Canadian exports.

That concludes my opening remarks. There are a number of related issues such as nontariff barriers that I have specifically not included in my opening remarks and that perhaps we could deal with in questions and answers.

In conclusion, let me say CBEMA is basically encouraged by the potential for Canadians as a result of a freer trade environment with the United States. Some have expressed the fear that opening up Canada's borders will result in a dramatic job loss in Canada. A large number of CBEMA's members have demonstrated, through their export success and ingenuity, that Canadian industry is capable of identifying and selling into foreign market niches in a competitive environment. This export success creates, not costs but jobs. Assured access to the US export market is fundamental if CBEMA members are going to grow.

I welcome any questions.

Mr. Chairman: Do you have any idea what the history is behind the computer mainframe tariff or tariffs on items that we do not produce in Canada?

Mr. Murray: If you go back to the Tokyo round of GATT negotiations, there was fairly widespread recognition in the international community that these high tariffs on data processing equipment were not serving any useful purpose. Many of the countries went to the table with the view to negotiating these away down or, in some cases, out of existence.

It was not limited to the mainframes. How do I explain this? Almost in parallel with the GATT exercise, an exercise went on in Canada before the Tariff Board to simplify the classification of data processing equipment for import purposes. So when Canada went to the GATT round of negotiations, it was dealing with a rather broad definition of information products.

We, along with other countries in the international community, did agree to bring the tariffs down dramatically on data processing equipment over the GATT time frame, which ends in 1987. It was not necessarily because of where the equipment was manufactured, it was because all the countries at the table recognized they needed access to these tools of productivity in a national sense and therefore it was in their best interests to make sure their national economies could get this type of productivity tool at the lowest cost. Tariffs were just adding costs around the world for no good purpose.

Mr. Chairman: This becomes a negotiating tool for us now, though. There is no particular loss if we eventually give it up as far as the United States is concerned.

Mr. Murray: No, and I think it is fairly well accepted in our industry that the governments will be willing to eliminate the tariff, either as a first step in the process or as part of any package.

Mr. Mackenzie: Have there not been tremendous steps made already in the computer trade with the United States?

Mr. Murray: That is a difficult question to answer because the way the statistics are captured, they cover a wide range of high-technology goods, including computers and computer-related products and some electrical equipment. In some cases they include the aerospace industry and other high-technology industries.

We have been trying to get Ottawa to be more definitive about those trade statistics, because we are not sure they can be relied upon to make the point some people tend to make.

Mr. Mackenzie: We had a chart showing that in five years we have doubled our deficit in high-technology products. My own research department has told us we are almost out of it in computers and that we have a tremendous imbalance in computer trade. Can you give us some figures that give the other side of that, or is it too difficult to carve out the sectors?

Mr. Murray: It is difficult. There is some trade deficit if you look totally at data processing equipment. However, subject to seeing more detailed statistics, it is our view that it is not as great as those statistics purport it to be because they have swept in some other things. Let me give you an example. In my own company, we have a balance of trade deficit at the moment, but we also export about \$1 billion worth of equipment each year.

Mr. Chairman: Is that IBM Canada Ltd.?

Mr. Murray: It is IBM. We have to remember, as Mr. Hughes pointed out, that IBM, like a lot of companies in this industry, has chosen to rationalize its production and it has special product missions in various countries. IBM has two plants in Canada. Most of the production of those plants is for export.

In some cases, we obviously have to bring in some foreign components for the manufacturing process. We then do the manufacturing process and export. Because of that phenomenon, of necessity we have to import the products we do not manufacture in Canada that are the subject of specialized manufacturing somewhere else in the world. That is what we mean by rationalization.

The problem is, and this is what we cannot get a handle on, some of our import activity is to generate export, whereas in many cases some Canadian-owned companies are importing only for the purposes of marketing in Canada and there is no element of export.

Mr. Ferraro: There is no value added.

Mr. Murray: Yes. When you look at the statistics, you cannot get behind those gross numbers to determine how much of that activity is trade-related and how much is purely to import from offshore to sell in the Canadian market with no export activity associated with it. It is the dynamics of this that we are trying to understand in the statistical sense.

I do not deny there are trade deficits, but I do not think any of us has been able to do a good job of understanding the dynamics of that. As Professor Richard Lipsey pointed out when he was before you, perhaps there is too much focus on trade balances in and of themselves. In a sense, the name of the game is to generate trade, which creates economic activity and creates jobs and all those other good things we need.

Mr. Hughes: The Canadian Business Equipment Manufacturers' Association recognizes the statistical problem and is about to embark on a study of it, although I cannot say we are going to be successful. We are going to try to understand it, because it is being discussed to death and everyone says confusion is the result. We are going to try to study and understand it ourselves. It will take us some months, but that work is about to start.

As to the statistics by Statistics Canada, it admits with some embarrassment that they are faulty at least to the extent, I am told, that Canada is exporting more than it produces in this industry, which is an impossibility. They concede that, so there is something wrong with the categorization in which they developed the data. That does not go to the point that there is no trade deficit; I am not saying that. However, there is great confusion in the categorization.

Mr. Mackenzie: Do you dispute the figures the deputy minister gave us of a doubling of the deficit in high tech in five years?

Mr. Murray: I would, simply on the grounds that--

Mr. Hughes: He is using Statistics Canada figures.

Mr. Murray: It is not only Statistics Canada. The economic activity in the industry is not growing at that rate. Even if you took the trend figure as it existed three years ago, it has not come to pass. When the actual numbers are in, they will not be anywhere near the projections.

Mr. Mackenzie: They have split it into high, medium and low technology. With the figures they gave us, all had a substantial increase in deficit, but there was an actually doubling in the case of the high. I think we should check back with the ministry.

10:30 a.m.

Mr. Taylor: That is pretty important because the conclusion that is drawn from that is we are regressing to hewers of wood and drawers of water. The connotation that conjures up in the public mind is not a healthy one at all; so we become alarmists and overreact. It is the optics of that type of statistic that concern me.

At the same time, if you are dealing in totals, even regardless of value added, and you see a dramatic difference in

exports and imports, a tremendous imbalance, to indicate a complete dependence upon foreign countries for our technology, that is great hay for political parties and a great concern for the public.

Mr. Chairman: Somewhere during the course of the hearings of this committee--I guess it was from the Ministry of Industry, Trade and Technology as well--we heard the figure of a \$4-billion computer deficit with all other countries. Again, this figure, you are suggesting, might be based on false premises.

Mr. Ferraro: Are you talking nationally?

Mr. Chairman: Yes.

Mr. Murray: There are two parts of it. One is what makes up the statistic. The other thing is that I know that two or three years ago the projection was for a \$5-billion deficit in the so-called information processing industry, however they chose to define that. I have not seen any actual figures to indicate that we are on that trend line.

Mr. Chairman: We have seen some that say \$4 billion plus.

Mr. Murray: Actual or projected?

Mr. Chairman: These are figures that now exist.

Mr. Murray: I have not seen those. I am sorry.

Mr. Chairman: Then, again, the fact that people are bringing computers or other things into this country to export them does not speak highly of the production process here, does it?

Mr. Murray: Maybe I did not make myself clear. A large majority of the multinational companies have chosen to specialize their production in various places around the world so they can achieve the economies of scale, the economies of size, the long production runs and the productivity improvements that allow them to manufacture products in Canada that are competitive with what they would be if they were manufactured anywhere else in the world. The intention is to produce much more than you need in Canada for the Canadian market. The objective of all this is to drive out exports to all the other countries.

When you do that you choose to specialize in certain products. A small part of them may end up being marketed and installed in Canada, but 90 per cent or more of the product then gets exported to other countries. We in turn, of course, have to import from some other plant that specializes in some other product that the Canadian user wants to buy for use in Canada.

Mr. Chairman: I follow what you are saying.

Mr. Murray: So it proves the opposite. We are very competitive once we do this. Canadians can compete with anybody in the world.

Mr. Taylor: So it generates imports because of components that might be utilized in your production and it generates imports again because of add-ons or related equipment that might be brought in for domestic users of what you have manufactured here.

Mr. Murray: That is right.

Mr. Taylor: But the more you import, actually, the more business you are doing and the more you export as well.

Mr. Murray: That is right.

Mr. McGuigan: To bring this down to terms I can understand, are you really saying we are assembling most of these articles in Canada and we are importing the parts from areas where they probably have lower labour costs? Is it similar to the auto industry?

Mr. Murray: Not really, no. It obviously depends on the type of product we are talking about. Let me illustrate. Our plant in Bromont, Quebec is a high-technology plant with clean rooms and a very small labour component.

Mr. McGuigan: Air filters and all of that.

Mr. Murray: All of that. We are under pressure from the Canadian government to head high-tech type operations, and that is what we have done in Bromont. The difficulty in responding to that political pressure is that one does not create a labour-intensive plant, so the government says, "At the moment we would rather have high tech, because we want to have skilled people employed." You give up something in the tradeoff. You get a leading edge, clean-room technology, but few people.

Our plant in Don Mills is a little the other way. We tend to produce printers, display screens and the like, and there is a much higher labour component. We get our components in some cases from our sister companies in other countries that specialize, but more and more we get those components from Canadian vendors. I think there are about 1,500 jobs in Canada created because there are small companies supplying us for our Canadian requirement.

Mr. McGuigan: So some parts are made here?

Mr. Murray: Yes.

Mr. Brandt: I have a couple of questions, but first I would like to make a quick statement about--

Mr. Chairman: I wonder before you do if I could rectify one thing. I am told I should not have attributed my figures to the Ministry of Industry, Trade and Technology. I may have got them privately from another source, but they are probably Statistics Canada statements.

Mr. Brandt: I was just going to say in regard to figures that when we were in Kitchener, you might recall the committee took some exception to the import figures into Ontario, which were far out of line with Quebec as an example. We did make the point that some of these products are transshipped to other provinces.

You make it very clear that this is the case in your industry. It does not cost us economic activity but it is a wealth generator. I think that is a very important point. As a committee, we have to be very careful about how we interpret certain figures, when there are not only categories but subcategories of activity that we have to penetrate and understand in order to get a handle on this whole issue.

I had a couple of questions before I get into some more substantive questions. They were with respect to your brief. You used the word "peripherals" in your brief. I assume those are secondary products outside of the main product? What would that be?

Mr. Hughes: They are add-ons to make the main product more effective in its application.

Mr. Murray: To give you specifics, we would classify in that term such things as printers. Some people would include visual display terminals in the term peripheral. They are units that are intended to work with the central processing complex and they often are physically at some distance from the centre that operates them.

Mr. Brandt: So it is a secondary piece of equipment which is peripheral to the main unit of whatever?

Mr. Murray: That is right.

Mr. Brandt: All right. I tried to interpret a figure, if I can draw your attention to the bottom of page 4 where you comment that exports totalled \$139 million. Then, going to page 5, you said the industry enjoyed a \$230-million trade surplus. I am having trouble resolving those two figures. Could you perhaps--

Interjection.

Mr. Brandt: Am I reading them incorrectly?

Mr. Chairman: No, I think we all interpret them--

Mr. Brandt: My interpretation is that if you do--

Interjection.

Mr. Brandt: At the bottom of page 4, you indicate that the total exports were \$139 million. If I am reading this correctly, you would have great difficulty generating a \$230-million surplus, if those two figures are related. Maybe I am reading them wrong, but I--

10:40 a.m.

Mr. Hughes: You must be reading from a different text.

Mr. Brandt: No, on page 4, in the last paragraph--

Mr. Neufeld: I think \$139 million of the furniture production in Canada was exported, which is a third of our total production. That is clear.

Mr. McGuigan: Our total production is \$400 million or more.

Mr. Neufeld: The total production is actually in the range of \$550 million.

Mr. Brandt: But that is not a trade surplus.

Mr. Neufeld: No, that is not. That is the total production, of which a third is exported. When we say we enjoy a \$230-million trade surplus, I must admit to having a little difficulty with that myself.

Mr. Brandt: When I read it, the trouble I had was that it is difficult to generate a surplus that is higher than your total sales. The surplus, in my interpretation, is indicative of what is left over after two-way trade has taken place.

Mr. Chairman: Mind you, you can do great things with figures. Maybe there is a way it can be done. I cannot see it either.

Mr. Brandt: Perhaps we can come back to that, if you want to.

Mr. Neufeld: I think we need to clarify that. I certainly agree--

Mr. Taylor: Maybe in conjunction with the bill that has come to your attention, which mentioned \$250 million--

Mr. Hughes: Those were US figures. I think that bill includes in those figures, probably not incorrectly, both office and residential furniture together as two categories, and they are in U.S. denominations.

Mr. Neufeld: The bill before the Senate in the United States is generated more by the residential furniture industry, as they mentioned. You would not want to muddy those figures with those of our sector.

Mr. Taylor: That is confusing, and not only that, but your interests are so separate. When you are getting into the residential furniture area, free trade with them--if I can use that expression--would be devastating. You are fine, you can compete and you do not seem to have the problems. You have a healthy surplus now.

Mr. Neufeld: Our concern is that tariffs are not our greatest problem down the road; nontariffs are. Through this last decade, the United States has done a number of things from time to time which have done a lot to keep down our opportunity for export. In some ways we could have done even better than we have, not because of tariffs, quite frankly, but because of nontariffs.

Mr. Hughes: I am guessing that the \$230-million trade surplus is the combination of both office and residential. I realize I have said "office," and that is the point I will clarify with you by letter separately.

Mr. Brandt: Fine.

Mr. Hughes: They are Statistics Canada numbers. I can easily do it. I am sorry for that.

Mr. Brandt: It is obvious this industry is dependent upon exports and a secure market, primarily in the United States, I would guess. Perhaps you could identify other countries you export to. I think that is of importance to this committee as well. It is also obvious that you could not survive as an industry in your present size on domestic sales only. In fact, for the majority of your product in IBM Canada Ltd., the manufacturing process is completed in Ontario and then the product is shipped elsewhere.

You also commented on the fact that tariffs are not a major factor in your industry, that you could live with a reduction in tariffs. A double blow from the US decision-makers would be with respect not only to a lowering of the tariffs but perhaps also to the currency. I know some are suggesting this is unlikely to happen. As an example, the Royal Bank of Canada's representative speaking to us yesterday talked about the value of the US currency and the fact that it would be highly unlikely we would go to 90 cents US.

If that did happen, if we had the worst of both worlds and received that double economic punch, a reduction of tariffs coupled with a re-evaluation of the currency, giving us no more than, say, a 10 per cent advantage, could you still retain a viable export industry with respect to the American situation, or do you require one and-or the other? I guess my question is, could you live with both, if they both happened? That is a possibility. It may not be a probability but it is a possibility.

Mr. Hughes: There are two industries and you will get two different answers.

Mr. Neufeld: The industry concerned with furniture obviously is getting a great deal of benefit from the current level of exchange. That is what is giving us the opportunity to sell in the US market in particular. In our industry, 95 per cent of exports are to the United States. We are not dealing substantially with anything other than that market.

The tariff is obviously some protection against imports into Canada. One of the major things it does is that there is a

continued presence here of some US manufacturers. They have manufacturing plants here to take full advantage of the Canadian market and are supplying the Canadian market substantially through them.

To answer your question specifically, should the dollar rise to 90 cents we would find it very difficult to compete. A lot of our people, Canadian subsidiaries of US companies, would start to question the validity of remaining here. I happen to be at a Canadian-owned company and we would find it very difficult to export to the United States. We are competitive there primarily because of the exchange rate.

Mr. McGuigan: As I understand the exchange rate, a market-driven force automatically makes adjustments between our two economies. Is it fair to make a projection into the future and say what would happen if we went to 90-cents, without taking into account that there would have to be some market-driven adjustment that would make it go to 90 cents? You are trying to compare a set position with market-driven elements in it with another position where you are not taking into consideration what made the change.

Mr. Brandt: If I could add to that, every economist in the world will tell you that the \$150-billion trade deficit the US has would result in a weaker US dollar in monetary terms in a perfectly adjusted world. That did not happen until they very recently took some action. Everyone has commented that those checks and balances work at some point. If you are a heavy importer, your currency weakens and then at some point the lines cross in economic terms. As a result of your weakening dollar, it then becomes more advantageous for your country to export. Those things are supposed to be in check and balance, but the fact of the matter is it does not work out that way.

Mr. McGuigan: They do not in the short term.

Mr. Chairman: I think Richard Lipsey was trying to contradict that to some extent.

Mr. Brandt: The reality is there is a well-identified trade deficit in the United States, which virtually every economist has indicated would lead to a reduction at some point. For example, the economy of West Germany is predicated on the principle that the German mark will float. They will not support it in the same way we do, although they have different interpretations of support for industries. They allow weaker industries to die off, while they strengthen their strong or successful industries. They work on the basis of a high importation of products resulting in a weakening of their currency, with a heavy exportation of their products resulting in a strengthening of their currency.

Mr. Taylor: They do not have the deficit the US has.

Mr. Brandt: They do not. The point I am trying to argue is that, under normal circumstances, the \$150-billion deficit would automatically lead one to conclude that the dollar should start to weaken. The current deficit also aggravates the deficit in trade.

Mr. Taylor: I am talking about the current deficit. That keeps the American dollar high.

10:50 a.m.

Mr. Brandt: Those factors coupled together should lead to a weaker currency and I think we are going to see that. I am sure your industry is apprehensive--that may be an understatement--about what would happen. We have already had about a five per cent devaluation, comparatively speaking, between the US and other world currencies. Some have suggested it may go to 25 per cent. That would mean there would be a rise, at least opposite some of the European currencies and those of other industrial nations, such as the Japanese yen.

Did I interrupt your supplementary so badly I skewered it?

Mr. McGuigan: I just wanted to make that point.

Mr. Brandt: I wanted to ask whether your industry has attempted in any way to make representations to the federal government with respect to removing some of the imbalances in the tariffs currently in existence. The wall-covering industry, as an example, came in to us and indicated an approximate three-to-one ratio in some products. They said we could live with a level playing field.

You are indicating that, too. If the tariffs were simply brought down to the point where they were equal on both sides of the border, you would continue to enjoy a relatively ambitious level of sales into the US market. These aggravations are precipitating actions on the part of Congress for some of the protectionist legislation that is coming forward. Has your industry made representations to have these things equalized?

Mr. Ferraro: No, they said they want gradual reductions.

Mr. Brandt: Even gradually.

Mr. Hughes: We said in a 10-year time frame.

Mr. Neufeld: Very specifically, one of the great difficulties with the furniture industry, as Mr. Hughes has pointed out, which is quite different from the information processing industry, is that the tariffs that exist going into the US are not straight, simple numbers. Furniture coming into Canada has one constant tariff. No matter what the product type is, it is the same.

The furniture going to the US varies by the material of chief value in the product. The US has always used a different method of classifying the tariffs that are set. It has tended to support individual sectors of its industry rather than the industry in total.

I see you have just been handed something from the textile industry. That is the major element that has affected this. For example, going into the United States, if the product of chief

value is wood, it is fairly low. Right now it is a 4.5 per cent duty going into the US. Metal as the product of chief value is now at about 9.5 per cent. However, if textiles are the products of chief value, which means any good piece of seating, it is still up at 15.8 per cent, almost exactly what the import to Canada is.

That has been our great concern. There is an imbalance in dealing with these things on a sectoral level. There are certain sectors in the United States that are still very protectionist and seem to have the ear of Congress to maintain that. Therefore, it is not nearly as simple as the bill before it shows. That says it is going down to 3.5 per cent, which it will at the end of the current General Agreement on Tariffs and Trade, on wood as the prime material. They fail to point out there are a number of other things that carry a much higher tariff.

Mr. Brandt: The tariff barriers are obviously one factor in the equation as to how successful we are in our trade with the United States. You also mentioned in your brief, Mr. Hughes, there are nontariff barriers in your industry that cause you some concern. That is one of the areas on which we want to get a better handle. In many instances, the nontariff barriers can be far more aggravating and can completely close you out of a market much more quickly than a tariff.

There have been instances brought before this committee, just to cite one example, in which American states have introduced preferential purchasing policies. That is one form of a nontariff barrier. I wonder if you can amplify a little on the kinds of trade impediments you are experiencing in your industry and give us some indication of what those nontariff barriers are?

Mr. Hughes: I repeat my first comment that there are essentially two industries here. I would ask the committee to keep them separate because the characteristics are really quite different. I am talking about the information processing industry--Mr. Murray is the representative--and then the office contracting furniture industry, not residential furniture, represented by Mr. Neufeld.

In Mr. Neufeld's type of industry, tariffs are still a fairly important issue. I will not say it is unique but it is a little unusual in Canada-US trade. It is still a fairly important issue because the tariff levels are still pretty high.

In the information processing industry it is not really an issue. It is a nuisance value. The issue there is nontariff barriers. I would ask Mr. Murray to comment about the information processing industry.

Mr. Murray: I want to limit the discussion to the situation vis-à-vis Canada and the United States. Having said that, most of the nontariff barrier problems in our industry exist in the other countries of the world.

Between Canada and the United States, frankly, there are very few nontariff barriers affecting data processing equipment. The main one is the one you already identified: government

procurement preferences. Those exist on both sides of the border, both in Canada and in the United States, not only at the federal level but also at the provincial and state levels. Indeed, some of the major problems we have with nontariff barriers are within Canada as opposed to our export dealings in the United States.

The big concern, though, is that while it is relatively free of those barriers at the moment, the growing mood in the US towards greater protectionism at least poses the threat of reducing the economic activity that is now taking place in Canada directed towards exports. We are very nervous that unless Canada can come to some arrangement which secures our access, this industry, along with others, could really take a major step backwards from where we are today; with all the hurt and detriment to the Canadian economy. We do not want to see more nontariff barriers creep into the system.

Mr. Murray: I have talked with some US officials about that. It is clear that the negotiating strategies for these two industries would be completely different, not only 10 years for one and immediate for the other with respect to tariffs. There were some sectoral talks a year or two ago on informatics that did not get very far but they did start the intellectual process of thinking it through.

I am told by some US officials that they believe one of the earliest success stories of any so-called comprehensive agreement which is now to be discussed would come in the information processing industry. Because there are so few nontariff barriers, the strategy there will be to freeze it, to not allow more nontariff barriers, rather than roll it back.

In many other sectors the strategy is to roll back the nontariff barriers. Because it is not too bad yet in the information processing industry, the mindset of the negotiators will be: "Okay, let us not let it get any worse. Let us keep it at that. It is not too bad." The assessment I have been given is that they could probably make progress faster in the information industry than they could in most other sectors.

11 a.m.

Mr. Morin-Strom: I would like to ask Mr. Murray if he could give us some data on IBM's trade position, since we apparently have such difficulty in getting data on the industry as a whole. Perhaps you could tell us, in the case of IBM, which I would think constitutes a big part of the Canadian and North American market in information processing, what is your import and export position? I am talking about Canada.

Mr. Murray: Let me preface my answer by throwing out a couple of things. First, in Canada we currently employ about 11,700 people. That employee population has been reasonably flat over the last three or four years because we have done what everyone has been urging us to do, improve our productivity and, more importantly, put more work out to Canadian vendors. As I mentioned earlier, at the moment there are about 1,500 Canadians employed in small businesses supplying our Canadian plants.

Of the 11,700 employees, about 3,800 are involved in manufacturing and research and development, so a fairly large part of our Canadian employee base is engaged in those activities.

Indeed, our laboratory in Canada is now approaching 1,000 people. It has grown from about 200 in about four years, so the growth in research and development activity has been substantial. The other people are employed in our two plants, one here in Don Mills, which employs about 1,600 people, and the other in Bromont, Quebec. When you add it all up it is around 1,200.

In 1984, we exported about \$900-million worth of goods and related services. If I recall correctly, we had a trade deficit in the neighbourhood of \$300 million in that year. I have to double check the number to be totally accurate. It jumps around from year to year, as you might expect. It depends on product cycles. Last year we announced some very significant new products at the large end of the product spectrum, and we import those because we do not manufacture them here. Those kinds of things affect our trade balance year after year, but to be more general, we have been running a trade balance for the last five years at IBM Canada Ltd.

Mr. Mackenzie: Can you average it over five years?

Mr. Murray: Export numbers have gone up so much; that is my problem. We are dealing with a dynamic situation, and those exports are going up even though we still have a trade deficit. We have generated a lot of economic activity for Canadians, and I have trouble working the trade deficit numerically into that kind of an equation.

Mr. Morin-Strom: So you have \$900 million going out and you have \$1.2 billion coming in.

Mr. Murray: Yes.

Mr. Morin-Strom: Of the \$900 million going out, how much of that is Canadian value added compared to the re-exporting of imported components and so on?

Mr. Murray: It varies dramatically by product. It can be as high as 70 per cent in some cases, and it can be down to 30 per cent in others. That is my dilemma again. As we were talking a few minutes ago, the government wants us to have high-tech activity. They push us. The Ministry of Science and Technology in Ottawa, the Department of Regional Industrial Expansion in Ottawa, and everyone says, "We want this leading-edge, high-tech production in Canada." What they do not accept in the same breath is that does not necessarily mean a lot of Canadian value added.

We actually made a decision at IBM to stop typewriter production in Canada because the technology was not really in the leading edge, and we concluded that typewriter production was not the type of production in Canada to employ the skills that were available and to keep Canadians technologically in the forefront. In making that decision, we reduced the Canadian value added of our Canadian manufacturing dramatically because that was very labour intensive. With respect to asking how much value we added,

those were big numbers, a percentage rate up in the 90s, but I think strategically for Canada, IBM made the right decision in moving into the high-tech type of manufacturing, with all that implies, even though it did not necessarily mean as much Canadian value added per unit of production. The numbers, unfortunately, have to be conditioned by a lot of these circumstances; that is the problem.

Mr. Morin-Strom: Can you give us a comparison with the United States of total research and development employees and total manufacturing employees?

Mr. Murray: I do not have those numbers with me. I can generalize. Our research and development employment is less than it is in the United States on any ratio you want to choose. Our manufacturing is close. It varies by year, but we have our fair share, if that is the reason you are asking the question.

Mr. Morin-Strom: That is what I am getting at. You have 1,000 research and development employees. I understood IBM had well over 20,000 R and D employees in the US.

Mr. Murray: I cannot give you the number.

Mr. Chairman: I have some statistics that might be pertinent. They are from Statistics Canada's report, Technology and Commodity Trade, dated September 1984. The table on page 20 talks about the import penetration of selected manufacturing industries into this country. It refers to office machinery. In 1981, the latest year it has, 95 per cent of our office machinery was imported. Looking back to 1966, it was 63 per cent; in 1976, it was 90 per cent; and in 1980, it actually rose to 96 per cent.

Mr. Murray: I suspect that is very accurate. Let me explain why. Back in 1963 we did assembly. We tried to assemble all the products we sold in Canada. Looking at statistics, if you looked at our industry back then before we specialized, the number of imports on a unit count of what was sold in Canada would show a lot less.

Mr. Chairman: So it is not terribly relevant now.

Mr. Murray: Now we have gone to specialization. By definition, 90 per cent of what we produce in Canada is exported on a unit count.

Mr. Chairman: Mr. Morin-Strom says we have lost the jobs, but the jobs were already lost and there is no particular point--

Mr. Morin-Strom: I am not sure we are getting our share of the jobs. We may have been getting them previously when the sales at least were being assembled here.

Mr. Murray: Except that we could not have stayed in business; it was too costly to do it that way. We had to become productive and competitive to survive.

Mr. Morin-Strom: What I am trying to get at is that IBM is a major international corporation that has a large portion of both the Canadian and American markets, similar to General Motors and Ford. In the auto pact we have a provision for Canadian content requirement in automobile production. They have very efficient and specialized plants producing certain models for the North American market. There is Canadian content provision in automobile trade.

Throughout the process of our committee hearings, I think that has been one of the highlights in terms of the data we have seen. There is the trade surplus we have on the automobile industry and the competitive state of the Canadian automobile industry in producing efficiently.

I wonder whether IBM or the computer area should be a target for Canadian content legislation that would ensure we get a fair share of the research and development and the manufacturing jobs being generated in the North American context.

Mr. Murray: I suggest it would have the opposite effect. If you put on too many of those nontariff requirements, I think there will be a disincentive for major corporations to invest in Canada because it is not then an attractive place to do business.

Mr. Morin-Strom: That is not what happened with automobiles.

11:10 a.m.

Mr. Murray: Look at what has happened with Northern Telecom. Northern Telecom is a very good Canadian multinational. It has earned that name and it deserves it. But what is it doing? Where is it putting its investment? You move to where the economic opportunities exist and where the economic climate is best. Northern Telecom is doing what any other multinational is doing. It is looking at its investment decisions in the context of those types of criteria.

Mr. Chairman: That does not answer the question of what we can be doing to make sure your company, which is involved in so much of the computer industry, can make more of those investment decisions pertinent to this country, so there is more than five per cent.

Mr. Hughes: I think the answer is they are privately owned. I would say that every international company, not just IBM, looks around the world for a place that provides it with a hospitable climate, that is, political as well as economic and social. They put it all together in their heads and they make their investment decision on that. It is therefore incumbent on Canada to stack up very well in that international, competitive race. It is not enough to say that we demand this. You have to look at how you compare with other competing locations. Therefore, the general economic climate, the levels of taxes, the urban planning, the economic infrastructure are all the things Canada must compete with. That is public policy competition.

Mr. Chairman: Are you suggesting we are not doing a good job in the political and social climate.

Mr. Hughes: No, I am not saying that. But the answer to the question, how do you ensure that?, is that you make sure the public policy environment in Canada is as competitive as alternative locations.

Mr. Morin-Strom: If I may just get back to the content, you talk of creating an investment climate. One of the things the auto pact did was create an excellent investment climate for those companies that were willing to live within the provisions of it because it gave them a totally tariff-free environment. Free trade was provided for the auto companies that were willing to live within the provisions of the content requirements.

The North American companies now have a competitive advantage in the Canadian market compared to the Japanese or Korean companies, which have to face tariffs and, in some cases, quotas. In particular, tariffs have been, on an ongoing basis, a disincentive to some degree for other companies. So there was an advantage given to those who were willing to live within the framework of that requirement.

Mr. Hughes: You would know better than I, having heard the witnesses, but my understanding is that another auto pact is just not on. The United States has let it be known quite clearly it does not intend to negotiate another safeguarded type of arrangement. Therefore, one must choose not that as the real world but something else.

Mr. Morin-Strom: This is a negotiating process, though. If Canada is going into negotiations, Canada may have a very different view of what a fair trade pact is compared to what the US has as a view of fair trade. To say the US is opposed to that so we will just disregard it--

Mr. Ferraro: In the same sense, multinational corporations can have the same view, whether or not they want to settle in Canada and have to deal with governments or attitudes that would compel them to enter into pacts. That is the freedom of choice they have.

Mr. Morin-Strom: That is right. Some may want to sell in Canada and some may not want to sell in Canada.

Mr. Ferraro: Some of them do not want to invest and some of them do not want any more damn restrictions. They are going to say, "Go to hell, Canada, if you are going to try to force us down that road," and I would not blame them.

Mr. Murray: If I may just add another comment, because in this sense Canada and the US share a problem, the US content of high-technology production is dropping very dramatically because its competition is coming from places such as Taiwan and Korea. I am not so sure that we could have an auto pact arrangement with even that much US content now that could be shared between Canada and the United States, because it is dropping.

Mr. Cordiano: That would be reflected in the automobile situation, automobile manufacturers, assuming that happened there.

I just want to make one other point, back to the supplementary. You mentioned Northern Telecom. My understanding is it has invested heavily in the United States. I think it employs five times the number of people there it does here. Is that correct?

Mr. Murray: I cannot give you the absolute numbers. Most of its growth has been in the United States.

Mr. Cordiano: Let us put it this way. It employs more people in the United States than in Canada.

Mr. Murray: I believe so.

Mr. Cordiano: That is not necessarily a bad thing, but by the same token, if it has gone to the US, if we remove tariff barriers and other obstacles to trade, what is to say most of the multinationals will not locate there? What will be the incentive for producing in this country?

Mr. Murray: May I deal with it in two ways? To go back to the original statement about Northern Telecom, I cannot speak for them, but as somebody looking from the outside, I think they were faced with three things. Their biggest potential market was in the United States, and you often go where your markets are. Second, the investment climate was a lot better in the United States, from their point of view. Third, they were trying to overcome concerns about protectionism and regulation. I think they were concerned the United States would perhaps close its borders a bit.

Of course, in the United States, as has been the case until recently in Canada, telecommunications equipment was on the fringes of a regulated industry. They had some captive customers. Northern Telecom had Bell Canada as a big account. In the United States it was pretty hard to crack that market from on offshore sale. You had to get down there, be in business and invest there to have any hope of getting to be a supplier to the telephone companies in the United States. So I think there are reasons.

In answer to your second question, I have always said you cannot separate the trade issue from the general health of our country. In my view, there is no sense opening up the borders unless we also in lockstep do the right things to create the economic environment to make Canada a welcome place to invest.

Mr. Cordiano: However, I do not think it is not a welcome place to invest. What we heard in Washington was that the Foreign Investment Review Agency was not a major problem. It was perceived as a major problem and it also symbolized Canadian independence.

Mr. Taylor: The perception became the problem.

Mr. Cordiano: Wait a minute. We are talking about the economic facts.

Mr. Taylor: That translates into economic facts, because you develop an image of the country and say, "I do not think we should go there." It may be based on incorrect assumptions, but nevertheless they are real, because of the image projected by Canada as the result of FIRA and the national energy program.

Mr. Cordiano: That is fine, but what I am saying is that there was a perception. The country did not all of a sudden become totally different from what it had been before because of FIRA and NEP. Essentially, the economy and the government were relatively stable and it was a good place to do business regardless of those two policies and programs.

I think the Americans somehow used that to their advantage, to argue for making it more favourable for them to invest in this country, perhaps at the expense of other Canadian or foreign investors.

11:20 a.m.

Mr. Murray: You may be right. First, you have to accept the fact that impressions exist, whether they are founded in fact or not. They can exist and are hard to shed once they have taken hold.

I think you are right. Right at this moment a number of foreign investors, whether American or otherwise, consider Canada is now an attractive place to invest or increase their investments. All I was suggesting was that if we do start down the road on a comprehensive trade arrangement with the US or if we start into the next round of General Agreement on Tariffs and Trade multilateral negotiations, it is going to be even more important that we maintain Canada as an attractive place to do business. If, at the same time we are opening up those borders, we do another FIRA type of thing, which creates the wrong impression, we have really then scuttled the exercise.

Mr. Cordiano: Okay, that is on the one hand. Then there is the other reality of economic factors that would enter into the picture. Would there be enough economically sound reasons to stay within the Canadian border for doing business, apart from perceptions? A lot of people make their decisions based on perceptions when it comes to governments.

Mr. Murray: I can only speak to our own company. You will get a chance to speak to our industry in response to his question. In our company, and I am told that this is the same experience of other companies in this industry, we find with our manufacturing operations we can compete in terms of cost, quality and everything else, even if we assume a par exchange rate.

Our two Canadian plants have for the last four or five years won the plant of the year award for all IBM plants around the world on the basis of their productivity, their quality, their

ability to meet costs and all the usual manufacturing targets. Our experience is that Canadians can compete. We have all the right ingredients. We have the work ethic. We have the education. We have the skills. We have a management system. We have access to all the goods and services we need and we can compete.

Mr. Hughes: May I make a general comment? In my remarks I used the words "market niche." I think it is worth repeating. Behind the discussion we are having this morning is an assumption that Canada will not continue, if it ever did before, to try to have a broad-scale, broad-based, all-encompassing manufacturing sector. Very few countries in the world can do that. Perhaps the US alone can.

With all of this trade, there is the assumption that restructuring will go on and you will find a lot of painful adjustments as this rationalization occurs and as companies search and probe for the market niche in which they can be cost competitive in third countries. That is already going on. It is going to go on with or without the Canada-US trade talks, but the talks will increase that process.

We are not trying to get IBM or Arconas to manufacture A to Z. The consequence of the present world industrial structure is that they are going to manufacture product D and product E. We have not yet thought that through and the economy has not yet adjusted to that. It is in the throes of that adjustment right now.

Mr. Chairman: Just having a few of those letters out of the A to Z is one of the things we are worried about.

Supplemental to some of the things Mr. Cordiano has raised, there are a couple of perceptions we may have received from the Americans when we were down there. One was that while there were a number of irritants which they thought were raised in this country from 1980 to 1982, they seemed to be talking about those irritants being smoothed out, starting with the former Liberal federal government and continuing since 1982.

Secondly, we had a very strong and persuasive submission to the effect that Ontario somehow had great advantages over some industrial states such as Michigan as a place where presidents would like to live, and that states such as Massachusetts and California have attracted high-tech industries for those reasons. I gather there may be some irritants such as taxes and planning that you feel are not auguring in favour of Ontario.

Mr. Murray: Sure. I could identify five or six, but on balance I do not think they are crucial to someone who actually sits down and makes an analytical investment decision. For every one you could identify here, if you were comparing the situation to that in the United States, you could probably find some offsetting irritants which, in terms of an economic balance sheet, would make it close to a wash.

I think you are right. It is those soft things that are important and we do enjoy a reputation in Canada for all the amenities we have, the standard of living, the safety and the

cleanliness. We have an education structure now that ranks very highly with the rest of the world.

It is interesting; I did not bring it with me but there was a feature article in Business Week about four or five years ago in which they were talking about the way state governments around the world and within the United States were throwing money at high-tech industries to attract them to set up shop in their jurisdictions.

They went through all the techniques that were being used: tax write-offs and tax holidays. The analysis they did showed that several of these failed and were doomed to fail from the beginning because those municipalities or states lacked the soft ingredients to attract the kind of people who work in high-tech industries.

They want to be very close, for example, to a highly rated academic community. If you do not have a municipality that can offer such a facility, a first-class university or whatever, then no matter what money you throw at an organization, it will not invest there because the people it needs will not be motivated to move there. Those soft issues are extremely important.

Mr. McGuigan: I can add one point to that. We were told that in the United States, too, in some instances the company simply moved in for the period of time it was given this advantage of a tax write-off or whatever. As soon as it had used up the advantage, it would go to some other state that offered it a similar thing. It is like putting on a special at the grocery store. People go there and buy the special and go back to the other store to buy their regular items.

Mr. Taylor: That is good shopping.

Mr. Chairman: I would like to read some more recent statistics I have from the Summary of Canadian International Trade by Statscan, July 1985. Office equipment exports have increased from \$1.2 billion to \$1.8 billion between 1982 and 1984, while imports have increased from \$2.9 billion to \$4.4 billion in the same period. The gap would seem to be increasing.

Similarly, in the field of telecommunications equipment, although you have admitted that it is not progressing, exports have increased in that period from \$1.5 billion to \$2.7 billion.

Mr. Taylor: What does the exchange rate have to do with that? Does it not have some relevance in those figures? If your exchange rate is increasing and the value of the American dollar is going up--

Mr. Chairman: If I may finish, because this is kind of important. The imports have increased from \$2.1 to \$3.8 billion, almost doubled, in two years.

11:30 a.m.

Mr. Murray: To answer that question, exchange rates on a worldwide basis have obviously had an effect. That is the United

States' big problem now because of the fact that so much of this stuff can be manufactured around the world and sold so cheaply into the US market, and we have suffered in Canada to some extent from that. Wage rates and all these other economic advantages that exist in some other countries have shifted the production balance in high technology from high-wage countries to low-wage countries.

A lot of it is automated. You do not need to have highly skilled people as you do with less automated operations, as long as there are a few skilled people who know how to run the complexes. You can set up in business and do everything cheaply and produce quality products. That is part of our problem.

We are talking about a potential arrangement with the United States. There is much more equality between Canada and the United States on a lot of these issues. As long as that is what we are talking about, some of those other concerns are outside the parameters of this discussion. That does not mean we ignore them. We have to deal with them, but not necessarily in the context of the upcoming discussion, the agenda--

Mr. Taylor: I do not know whether that is adjusted for straight dollars or not. You could be importing the same 100 items at the same American price you are purchasing for, but you are paying more for them in Canadian dollars because the dollar is now worth some 70 cents United States. What I am getting at is that, for statistical purposes, the total number of dollars may be greater but actually the trade has not changed.

Interjection: Number of units.

Mr. Taylor: I wonder whether that might be a factor in your statistical report.

Mr. Cordiano: It points to the fact there must be greater emphasis on some of the newer technologies and on developing some of them. Can we do it in this country? Can we be part of the newer, developing technology that is going to be labour intensive?

Mr. Hughes: It also points to my original comment on market niches. We are using words such as high-tech office equipment. That is not a niche. That is an enormously great category. Within those categories there have to be niches Canadians have to find. Technology is easily transferable around the world. It is happening faster and faster. You can easily produce automated standardized production using very high-tech production processes in Brazil, Taiwan or elsewhere. If you then say that is a high-tech product, you are going to watch that appear in the imports because that is where the low-cost imports are coming from.

The high-tech policy, if that is the right word, is to find those market niches, perhaps leading-edge technologies in which Canada has a comparative advantage.

Mr. McGuigan: A question touched on earlier was the case of typewriters, whether it is a good strategy for Canada to be

pushing to be at the leading edge considering our one-tenth resources compared to the United States. It is one to 10 in population resources. There is its ability with a larger economy to set aside a greater amount for research and development. It makes one wonder whether that is the best strategy for Canada to pursue. Perhaps we should be setting our sights a little lower and be the manufacturer of those items. Would you comment on that?

Mr. Murray: I would worry about that for high-tech products because the rate of change is so rapid. That is what we were starting to face up to at IBM Canada Ltd. We were specializing in a product, electric typewriters, where the market for the product had not only gone flat but was declining. There is a huge investment in setting up and you cannot just get out of it overnight so you have to anticipate what is likely to happen. Fortunately, we anticipated early enough to get out of it and get into something more current, but even then there is a risk in our Don Mills plant where we are asked to manufacture or earn the right to manufacture a new printer.

We have a lot of eggs in that basket. If that product is a market failure, then we have a problem because we are locked into a product. That is the risk you take. As Mr. Hughes has pointed out, if you have chosen the right niche, if you have a product line or a commission in your lab which capitalizes on Canadian comparative advantages, then at least you are in the right ball game. While there are going to be risks within the ball game, they are not as great.

A little diversion will also illustrate the point. When I was at the Canadian Chamber of Commerce annual meeting in Saskatoon earlier this week--where I am sure you heard they unanimously endorsed dealing with the United States for a comprehensive trade agreement--one of the speakers made a point that struck me. I have never heard it put this way before. He said that if we look back over the last five years at what has been happening to employment or unemployment, most of the large companies have been reducing employment for two reasons: economic reasons, and trying to improve their productivity to be more efficient.

He said the real growth has not only been in small business but there has also been a major shift to services and boutiques. One of the other things that large companies are finding out is that consumer tastes have changed. The supermarkets, department stores and so on now recognize that they have to go to the boutique kind of setup, and he says Canadians are in a better position than Americans to capitalize on that kind of business activity. You do not have to be big, just more specialized.

A lot of people in Canada are doing very well now in the boutique industries and he said the US market is open to some of these companies and that is where the action is going to be.

Mr. Ferrari: The doctors found that out earlier.

Mr. Murray: That is true.

Mr. McGuigan: Your answer really is that you support trying to maintain a position in the leading edge of--

Mr. Murray: I am going to come to high technology. I am repeating myself now but things change so quickly that if you are not constantly at the leading edge you can get left behind in the pack very quickly. Once that happens, it is hard to catch up.

11:40 a.m.

Mr. McGuigan: There is another question I want to ask and I think it is important. It is a question of perception. To avoid making a statement, I will preface it with, "Are you aware."

Are you aware there was not only a perception about the Foreign Investment Review Agency but there was also a fact? It is important that this committee know it because so often we touch on the question of the general social level and the atmosphere in Canada. I am told it is a fact that FIRA was not an honest broker, and that is being quite generous; that when notice came to the people in Ottawa that company A in the United States wanted to buy company B in Canada, first they put a very onerous information requirement in front of that company. They had to tell everything about their business, give information that would not necessarily stay in Ottawa but could get into the hands of competitors. The system was open enough that it could. In addition to that, it took a minimum of two years. In many cases, the buyer's interest was gone in that time.

I do not mind knocking Liberals. I will knock Conservatives too, at times. I usually hit them in the right spot, too.

Mr. Brandt: That is just an opinion.

Mr. McGuigan: The public of Ontario had an opinion on that as well.

When the request came from company A to buy company B, they would put this two-year hold on it and in the meantime would start searching for companies in Canada who might be the purchaser. They would give the company away to someone in Canada, in a sense, at a much lower price than it would have commanded in the international market. Time after time, American companies saw some Canadian company was the purchaser when they were making an application to buy a Canadian company. They got sick of it, and rightly so.

I do not think the Foreign Investment Review Agency was ever meant to be that kind of broker. FIRA was meant to decide whether it was in the best interests of Canada that a company be owned by a Canadian or American company.

Mr. Hughes: I can answer the question by saying, yes, I am aware those allegations were made. However, I would only say it is not surprising. The act gave cabinet power to make political economic decisions. In my humble opinion, the bureaucracy should not be criticized for fulfilling the mandate it was given. The act was specifically designed to fulfil a political economic view of life and it did so.

Mr. McGuigan: As far as you are concerned, then, it was their mandate to do that.

Mr. Hughes: Oh yes, definitely; without any question.

Mr. Taylor: The perception is that it emanated from a political level and was probably conceived at the level of the permanent government of bureaucracy, sold in part at ministerial level and then enforced by the same bureaucracy that had dreamed it up.

Mr. McGuigan: There is more than one perception when it is done badly.

Mr. Taylor: As a politician, do you feel more comfortable with that?

Mr. Chairman: That of course is behind us. Just to carry on and to answer Mr. Taylor's questioning of my earlier figures, apparently Statistics Canada has done these same figures on units. As of 1970 it was 100, and in the period 1982-1984 our exports of office equipment have increased 118 units. Our imports have increased 211.2. I am turning the floor over to Mr. Ferraro.

Mr. Ferraro: Thank you. Not to detract from the wonderful trip down memory lane we had about FIRA, my question is specifically attuned to interprovincial impediments and barriers. I am wondering if Mr. Hughes and Mr. Neufeld could comment from their respective industries or elaborate to a greater degree on what these are specifically.

Mr. Hughes: I can get rid of my meagre knowledge fairly quickly. You have already heard about the brewing and electrical industries. They are the most notorious examples in Canada of interprovincial trade barriers. There are others, of course, in the agricultural industry. The linkage between marketing boards, for example, and the grocery products industry is another.

Mr. Ferraro: I am sorry, I said Mr. Hughes. With the greatest respect, I meant Mr. Murray and Mr. Neufeld, specifically about their industries, so I apologize to you, Mr. Neufeld.

Mr. Neufeld: I can answer for our industry very quickly. We went through a period during the late 1970s and early 1980s where we even had a fair degree of barrier existing in the west. But in the last three years, the firms that were being protected out there have gone into receivership, so there is now a fairly clean, open market to the west. However, there continues to be a tremendous amount of resistance in Quebec, so much so that we do quite well within Montreal as long as we sell to the English market, but beyond that it is very difficult to sell Ontario-made furniture in Quebec.

Mr. Ferraro: Due to the language restrictions?

Mr. Neufeld: No, it is more than language restriction. First of all, government there is totally resistant to buying anything outside of the province and has managed to bring that

into a good number of other industries. In Quebec there is a greater degree of government involvement in industry than in Ontario. That could be a very clear statement--

Mr. Ferraro: You may not want to answer this, but could you comment on the number of members, if any, who have moved from Quebec to other provinces in the last five years?

Mr. Neufeld: Of our industry? No, I do not have those figures. I certainly am aware of two firms that have done that, but I would not have any kind of overall statistics.

Mr. Ferraro: Let me rephrase the question. Specifically are you aware of any that have gone into Quebec?

Mr. Neufeld: No, rather the other way.

Mr. Taylor: Remember that is state economic planning as defined by a socialist government.

Mr. Ferraro: You can draw certain conclusions, I am sure, Mr. Taylor.

Mr. Brandt: He just did.

Mr. Ferraro: I did not say I disagreed with you. I wonder if Mr. Murray could comment.

Mr. Murray: The major problem affecting our industry again has been government procurement discrimination. In some cases it has been dealt with as a general policy and in other cases there are at least two or three very notable examples of where the normal procurement process is bypassed completely to favour chosen companies.

Mr. Ferraro: In Quebec?

Mr. Murray: Quebec and Ontario.

Mr. Ferraro: Are you saying Ontario has been unfair?

Mr. Murray: For the educational computer they did award a contract of 10,000 units without tender.

Mr. Ferraro: That was an internal computer thing, yes.

Mr. Murray: The educational computer for schools.

Mr. Ferraro: Andy, a blemish.

Mr. Brandt: I know you will correct it.

Mr. Ferraro: We are trying.

Mr. Brandt: We still have the record of having one of the most open trading provinces and-or jurisdictions, virtually in the world. I do not think we have to--really I say this not in an uncharitable way, sir,--

Mr. Ferraro: I know. I asked for it. Go ahead, say it.

Mr. Brandt: I do not have to apologize for the way in which we conducted trade in this province. If all other jurisdictions were as open as we are, we probably would not even be discussing this subject, for whatever that is worth.

Mr. Mackenzie: I want to go back for a moment to the discussion you had for a while with Mr. Cordiano about whether or not we could compete, and to your figures on the imports and exports. The figures you gave us were for 1984, so we accept that year alone. We have exports of \$900 million and imports of \$1.2 billion.

Mr. Murray: I would have to doublecheck that. It is in that range.

Mr. Mackenzie: Assuming that ball-park figure.

Mr. Murray: I know the 900 is accurate.

Mr. Mackenzie: You also told us that the Canadian value added percentage of those imports might run from 30 per cent to 70 per cent. You could not give us the exact figures. Once again, just taking an assumption in that year that it was half, maybe you have the figures for that year, which would be 50 per cent, what you are really telling us is that our Canadian value added exports were only \$450 million. It skews in some ways the figures even more; at least it would in some people's minds. You had \$900 million in exports but half of that was stuff you imported into Canada to be included in the assembly, or manufacture or whatever, of what you shipped out again.

Some of our competitiveness also is based on the amount of the product you ship out that came in which was not manufactured here in the first place. Whether you bought it from the United States or from Third World countries, I suppose that price component could be substantial.

11:50 a.m.

Mr. Murray: This is one of the problems in dealing with these numbers we were looking to get at. We are talking about intercompany numbers. There is a tendency to relate these numbers to sales numbers. You cannot make those comparisons because one is a manufacturing cost and the other is an end selling price.

Mr. Mackenzie: They all go into the equation.

Mr. Murray: Yes.

Mr. Mackenzie: It would be nice if they could be carved out. What kind of a picture would really show in terms of our export balance?

Mr. Murray: My point is that when we import components from a sister plant, we import at a cost plus fixed profit percentage. Likewise, when we sell to our sister plants what we

produce, we sell at our cost plus the same fixed percentage profit. The costs we are talking about are actual costs as opposed to other people's selling prices.

Mr. Taylor: The difference might represent a profit.

Mr. Mackenzie: Incidentally, I have nothing against profit. That might surprise you.

Mr. Murray: What we are being measured on is the cost of what we do in the processing.

Mr. Mackenzie: With respect to jobs, half of what you are shipping out, based roughly on the figures you gave us, was never manufactured here in any case.

Mr. Murray: In some percentages, yes.

Mr. Mackenzie: What about the whole argument of using the kind of managed trade deal we have in the auto pact with respect to something as important as the computer industry, your industry, or business machine interests, I guess? Would not some kind of a worked out arrangement, with the auto pact as a guide, give us more chance of some security in employment and jobs? While you seem to reject it, would it not be an incentive for some of the smaller companies in the business, and if it was, would that then have some effect on IBM? I do not think you would be left out of the race if that approach was taken.

Mr. Murray: No, no. I am not concerned about that. I am just concerned that it is not as workable in the high-tech industry as it was in automobile manufacturing.

Mr. Mackenzie: I understand the rapidity of the change, but my concern is also the very imbalance you show in these figures, and I guess once again we will be challenging the numbers and whether the numbers are anywhere near correct. I am concerned about the fact that it really can be a lot more if you consider where it was made, look at it from a job production or value added point of view, and see the kind of doubling in only five years, unless it turns out to be totally skewed in the high-tech industry. We are not doing very well as it is with almost a total free trade arrangement. I am not sure how much more we gain by just opening everything up.

Mr. Murray: I am more concerned about what we are going to lose if we do not secure access.

Mr. Mackenzie: We are losing at one hell of a rate right now. Whether or not to use the more open approach is the basic question. How do we protect it, or have we reached the point where we have to start looking at some other answers?

Mr. Murray: I think we have to look at other answers to secure what we have and to enhance it. One is obviously the comprehensive trade agreement. I have my concerns about whether or not this industry could lend itself to an auto pact industry, because we are talking in Canada alone about almost 500 companies

and many more than that in the United States. They do not all manufacture; a car is a car is a car. In this industry we have people who write software you now find in the bookstores, people who make display screens, people who make printers, and people who write software for personal computers. My problem is, I just do not see how to get my arms around this industry, given the number of players and the makeup of the industry, to have an auto pact type of arrangement.

Mr. Mackenzie: I forget the last time I saw the figures on the auto pact, but hundreds of companies are involved there and you get a number of different components. I recognize there is a little more sophistication now in your industry, but--

Mr. Murray: When the auto pact was negotiated, much fewer parts were supplied to the manufacturers who then incorporated them. I am saying the way our products and services are marketed, we have all kinds of people marketing right into the end-user marketplace. I have to give a lot more thought as to whether those people could be organized in any way in an auto pact kind of arrangement with all the guarantees about content. That is my problem.

Mr. Mackenzie: I agree and I understand some of the complexities of your industry. I spent a number of years managing a keypunch operation, but I never could master the wiring of the damned boards.

Mr. Cordiano: You just said you are concerned that we secure what we have. In your opinion, under a negotiated deal for free trade, would we be able to take advantage of that and expand our trade? Do you think it would be positive or that it would keep things as they are, that we would hold on to what we have?

Mr. Murray: I think it would continue to be positive because despite the balance of trade numbers, the manufacturing and development by our industry has been growing. In the numbers I am quoting, I did not give you a current picture over years. There has been a substantial increase in activity here in Canada. The balance of trade still is a deficit but at least the number of people, the investment, the units of output, all the related economic activities have been growing. What we have been able to prove in our industry is that we can compete with our sister companies or our other organizations around the world provided we make the right product.

I suspect if we can work out a comprehensive trade arrangement, not only will we preserve the base we now have but we will also see further growth for the very same reasons we are seeing growth today.

Mr. Cordiano: Does IBM Canada have a world product mandate in the product in which you are now specializing and for which you have a niche in the marketplace? Would you be able to export that to the United States, apart from what you are doing right now? Or is that taking place already?

Mr. Murray: Everything we manufacture in our Quebec

plant, which is a components plant--the high-tech chips, everything in that plant--is exported. Most of it goes to the United States because it goes through another plant--it goes to several plants--and those chips then go into the next manufacturing step.

Mr. Cordiano: In the United States?

Mr. Murray: Mostly in the United States. We furnish some to other countries. From our plant in Don Mills where we manufacture some sprays and printers and a couple of other peripheral types of equipment--I am guessing a little--I would think close to 90 per cent of the production goes to the United States and the rest goes to other countries around the world. We are already competing very effectively with our US sister plants in cost, quality and all those things I mentioned a while ago.

Mr. Cordiano: You are saying the sister plants in the United States are more or less producing and manufacturing some of the similar items that you are manufacturing here in this country.

12 noon

Mr. Murray: Not any more. We have rationalized it. But there may be. Once in a while you have to have dual sourcing for protection. We cannot have just one plant--if it ever burned down or blew up or whatever--so we do have dual sourcing. Quite often we also have dual sourcing as between North America and Europe and when we measure ourselves against any other plant, whether it is in Europe or the United States, we are very cost-effective.

Mr. Cordiano: In addition to what you have already, do you think you would be able to manufacture additional products for export into the United States, or has the product you are already engaged in manufacturing reached its capacity in terms of supplying the market with its needs?

Mr. Murray: No. I am now going to try to answer two or three earlier questions, with a slightly different slant. When I say we are manufacturing chips for IBM's plant at Bromont, I mean we have developed an expertise in certain technology, in display and in printer technologies. We are now specializing in a family of products. As we move from today's to tomorrow's product--

Mr. Cordiano: It is evolutionary.

Mr. Murray: Yes. You put your stake in the ground with respect to the technological niche you have chosen to pursue. That is what happened with typewriters. Once the technological niche became outdated, you had to get out or be trapped with a technology that was not going anywhere.

By the same token, our laboratory in Toronto specializes in software. We have built up a worldwide reputation for our software programming expertise. That is how you stay in the ball game for the future. You do not know what the future products are going to look like. However, you know that if you have certain technological expertise, you will be used.

Mr. Taylor: I require a point of clarification arising out of the question. I surmise you might have been wondering, if there were freer trade, whether you would increase your sales in the United States or whether you have your market share now and it is a matter of competition for a bigger part of it, with the improved technologies again increasing that.

I gather the whole system is dynamic; so it is not a question of opening up more markets for you. It is presumably a matter of your company being located where it is most advantageous in any event. It is a case of the less hassle, the better with respect to being able to maintain your market share or improve it.

Mr. Murray: It is really preserving what we have. If a company is successful, then the products it has will sell more in volume. That obviously increases the activity. Then, if you are in the right technology and markets are not closed to you, you are in a position to negotiate for more product, which is the way you expand your operation. You have a wider menu of products if you pick the right technology.

Mr. Taylor: I am not particularly troubled because in one line we are importing everything and not exporting anything. That generates jobs too in the whole sales force. We discussed this in connection with importing automobiles. If you want to keep them out, you will find lobbies from the outlets that sell foreign cars. There will be pretty strong pressure. That all generates job activity.

Mr. Chairman: We would like to be producing some things, though.

Mr. Taylor: You do.

Mr. Cordiano: We are talking about a greater emphasis on creating new jobs and keeping our people employed in the future. We have to look for some of the technologies that will be more labour-intensive, which they are. Some of the new ones are--

Mr. Taylor: I am saying you generate jobs through imports as well as through exports. Do you not?

Mr. Cordiano: Certainly, but it is a relative balance you have to maintain.

Mr. Taylor: It is the overall economy that is going to sort things out. I guess you make up on the bananas what you lose on the oranges or apples, or whatever it is.

Mr. McGuigan: You are either a free trader or you are not.

Mr. Brandt: The trick is to keep it in balance. Obviously, if you imported everything, your economy would go to hell in a handbasket.

Mr. Murray: I want to add to that because I think you are on to an important point. The recent products in this industry

have led to a whole new way of marketing. Most of you now are aware that there are all kinds of computer dealers across this country that did not exist two years ago. The reason those companies are in business is that the technology in this industry developed the personal computer and other stand-alone desktop computers.

Right now there are about 1,500 small businessmen employed in Canada, of whom we know because they are dealing in our products. Those jobs did not exist two years ago. We estimate that by the end of the decade we will be talking about upwards of 4,000 or 5,000 jobs flowing from this technology.

Mr. Taylor: The point I am making is that it is unreal to expect a balance in exports and imports, industry by industry. I think you have to take more of a macroeconomic approach to it.

Mr. Cordiano: I would not disagree with that. All I am saying is that we may be missing the boat in the future on some of these areas that are going to create all kinds of new jobs if we are losing jobs in other industries where displacements are going to take place as far as a new trade deal worldwide is concerned and if we have it under the General Agreement on Tariffs and Trade.

Apart from all the discussions that are taking place, some of the competitive factors that go into world trade--you have already pointed those out--are displacing certain industries.

We have to be able to move into areas where we are going to create new employment. I think we are doing that now, relatively speaking, but in the future it is going to be those labour-intensive sectors where we are going to make our biggest gains. We have to look to that to improve our employment situation.

Mr. Murray: That is the chicken-or-the-egg problem. If we do not take advantage of technology wherever it comes from, wherever it is developed or wherever it is produced, we are not going to be able to provide the tools that those other industries in Canada need to improve their productivity and become competitive to survive.

If you want to look at any one sector where we would be in a lot of trouble by taking any kind of protectionist attitude, it would be the high-tech sector, because we just cannot make it all or develop it all here. Forgetting our export market, which is important on the one hand, if we end up doing things that invite retaliation in the sense that we could never get access to this technology from other places, we would be compounding the problem even more.

Mr. McGuigan: If I may have one final supplementary, I want to begin by saying that I approve of the auto pact; but when we look at the auto pact, we are looking at what is largely a North American market, and my assumption is that our North American auto industry is not world competitive. How many autos do we sell outside North America? Just a few luxury models.

However, in looking at this and many other industries, they are in the world market. My assumption is that IBM exports a great many products to the rest of the world, and I could widen that to say the industry exports to the world. Is that not the difference we are talking about in this industry as compared to the auto industry?

12:10 p.m.

Mr. Murray: It is even more than that. We deal in world products. The products we make and sell can be and are used anywhere in the world; they might have to be 50 cycles versus 60 cycles, but that is the only difference. When we design and manufacture these products, they are intended to be marketed in any country.

Mr. McGuigan: In fact, you do market and it is not just a token.

Mr. Murray: Absolutely; we do. With the auto industry, there are North American cars. There are a couple of cars now, but most of them are still manufactured for a market such as the American market. The Japanese are manufacturing cars in Japan for their own market that are different from the ones manufactured to be sold on the US market. They are different in a lot of ways. It is not just the emission control standards; a lot of other things are different between the cars. We manufacture the products. We manufacture in Don Mills. You will find the same products in Amsterdam, Singapore and Hong Kong.

Mr. Hughes: Before you conclude, can I correct the statistics mentioned in my opening remarks? The trade surplus is reported as \$230 million. That is made up of exports of \$268 million and imports of \$38 million in respect of 1984 office and contract furniture. Those figures are correct and the figures above are incorrect. I apologize for them; I must have been asleep.

I said the exports were \$139 million, and that is clearly wrong. I have asked for those figures to be checked, but the exports are \$268 million, imports are \$38 million and the trade surplus is \$230 million for office and contract furniture in 1984.

Mr. Chairman: We should withdraw that first sentence of the last paragraph on page 4.

Thank you for your assistance and your patience with us. We are particularly grateful to Mr. Murray because we put him on the hot seat a lot today. IBM, of course, is a very significant factor in high-tech industry. We are all anxious to see what goes on there.

The committee recessed at 12:13 p.m.

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SELECT COMMITTEE ON ECONOMIC AFFAIRS

ONTARIO TRADE REVIEW

THURSDAY, OCTOBER 3, 1985

Afternoon sitting



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LEGISLATIVE ASSEMBLY OF ONTARIO  
SELECT COMMITTEE ON ECONOMIC AFFAIRS

Thursday, October 3, 1985

The committee resumed at 2:10 p.m. in room 2.

ONTARIO TRADE REVIEW  
(continued)

Mr. Chairman: Let us get started this afternoon. What can I say? We are having a very strong finish. This will be our last open hearing before we write our interim report. We have been looking forward to hearing from Professor Rotstein for the whole time we have been involved in this thinking process. I will not say anything more. I will let you take over, professor.

DR. ABRAHAM ROTSTEIN

Dr. Rotstein: Thank you very much. I am in your hands as far as procedure is concerned. I have prepared a written brief and I hope the committee will have access to it. If I may make a suggestion, I will read portions of it and paraphrase some of the rest, if that is agreeable to you.

Mr. Chairman: Yes. We are used to being led through briefs with pertinent areas being pointed out to us.

Dr. Rotstein: The debate on free trade versus protection has been the great Canadian parlour game going back to the days before Confederation. When we succeeded in 1979 in signing the General Agreement on Tariffs and Trade, it appeared then perhaps that the free traders had won the day, after over 100 years of debate going back to the 1850s. They won the day because we had negotiated an agreement with the Americans under the Tokyo round, as it is called, to permit 96 per cent of Canadian manufactured goods entry into the United States at duties of five per cent or less. A good deal would have gone in at zero tariff.

In the light of the substantial currency fluctuations today, a five per cent tariff is negligible and, for all practical purposes, we had achieved not a full free trade agreement but a reasonable facsimile. However, fate has snatched defeat from the jaws of victory. As most of us are aware, the American \$150-billion trade deficit has created a second line of defence and the Americans have fallen back on another position, which they call their whole network of nontariff barriers.

The actual damage to Canadian interests thus far has been minimal to nonexistent, but what has swept through this country is something that could be called a "virtuous panic." We can call it "panic" because 76 per cent of our exports go to the United States and that puts close to 25 per cent of our gross national product at risk, even if it is an unknown and possibly exaggerated risk. We can say "virtuous" because many of the true believers in free trade find it convenient to use this fear of exclusion from the US market to propel us into a more totally integrated arrangement

with the United States. The great irony is that the more protectionist the United States becomes, the more we veer to free trade.

What do we hope to gain from all this? Basically, we are running hard so we can stay in the same place. We are trying to hang on to what we have and preserve our share of the US market. What we have already negotiated through GATT, it seems, we must now negotiate again through a very different maze of obstacles.

Are these trade negotiations likely to work the second time round? Despite my own biases in this matter, to which I readily admit, I believe the coming trade talks are likely to go on at cross-purposes and stand little chance of producing anything more than marginal or cosmetic changes. The heart of the problem is that when Canadians and Americans use the words "free trade," they have completely different expectations of what they hope to achieve and unrealistic notions of what the other side is supposed to give up. Let me elaborate.

In the good old days when the problem was tariffs, we could talk in a common language, which was a certain percentage reduction of this or that tariff on both sides. At the end of the day you could tote up the balance and you knew where you stood, whether you had a good deal.

Today the Canadians are pointed in the direction of what they call "secure access"--and there is a great deal to be said about that--and Americans have a completely different focus which they call "fair trade." The stage is set for each side to talk right past the other, and the twain, I suspect, will not easily meet.

The central point to recognize is that we are trying to negotiate through this warren of escape clauses, injury clauses, buy America provisions, countervail and anti-dumping legislation to try to get for Canadian goods what people have called an exemption. The most important question for Canadians is whether such an exemption is possible in the first place.

I draw your attention to a number of statements which I begin to quote at the bottom of page 3. William Merkin, the deputy assistant US Trade Representative who deals with Canada, was asked exactly this question. The question was put as follows:

"Secure and enhanced access should mean, in the ideal world, that traders do not have to look over their shoulders in fear of countervail and anti-dumping, or other trade action, once they have access to markets. Is there any likelihood of the US Congress making any concessions or movement in this area?"

This is Mr. Merkin's reply at the top of page 4. Remember that he is the official directly occupied with the Canadian desk in the Office of the United States Trade Representative.

"Both countries have countervail and anti-dumping laws. I don't see any way the US Congress, under a trade enhancement agreement, would do away with a company's ability to take countervail or anti-dumping measures against a Canadian company."

He continued subsequently:

"From a political realist viewpoint, if we go to the Congress and say we are waiving countervail and anti-dumping, I think the Congress would throw us out. It's one issue that must be supportable before Congress would even listen."

Exactly this position was reiterated by Clayton Yeutter, who is the US Trade Representative, the day after Mr. Mulroney phoned Mr. Reagan to request trade talks. I quote from the Globe and Mail of that date: "Philosophically, I would not be enthusiastic exempting anyone from anti-dumping or countervailing duty laws."

At the same time, while Mr. Yeutter was saying, in effect, that this was not a negotiable issue, he was asking Canada not to take issues off the table before negotiations even began. He had in mind quite an agenda that we have been expressing some qualifications about, whatever remains of our foreign investment policy, our cultural industries, our agricultural marketing boards and other items about which we had expressed reservations. He asked us to leave those on the table for discussion.

We all know where the impetus comes from for these American moves towards restricting imports of foreign goods into their country, the 300 protectionist bills. It comes from the fact that they have a high American dollar and they price themselves out of their own market. Can anything be done about this problem under a free trade treaty? American officials insist they cannot relinquish the power to levy countervailing and anti-dumping duties and cannot grant blanket exemptions to Canadian products.

What may be negotiable with Canada are different definitions of what constitutes a subsidy or injury to American firms, but this would have to proceed on a case-by-case basis and the interpretation of these decisions would ultimately be in the hands of American courts. Keep in mind a point I would like to stress. There is no accepted definition of the word "subsidy" in the American catalogue. It is a word that is being worked out through case law, bit by bit.

Donald Macdonald, chairman of the recent royal commission advocating free trade, addressed this same point as follows:

"I am not prepared to leave it to US judges to determine whether or not there has been unfair subsidy by the Canadians or dumping. In my experience, they'll act with the same kind of chauvinism as our judges will and decide in favour of their own people."

2:20 p.m.

I share Mr. Macdonald's assessment of this particular point, but it is Utopian to expect the Americans to agree to some international tribunal to make these decisions, as Mr. Macdonald advocates. Too much is at stake in their dealings with the rest of the world for them to give up control of this vital issue. In short, it does not seem to me possible to go a different route and

have an international tribunal decide what is and is not a subsidy because the Americans cannot afford to give up those powers.

Are there any other ways left to achieve secure access? There is one other proposal, which was put forward by Professor Richard Lipsey. He suggested that in order to achieve what the Americans call their level playing field--that is to say that other countries' goods are unfairly subsidized and they want to right the balance--we take the net difference between Canadian and American subsidies for a particular product and merely levy that difference between the two as a countervailing duty. Professor Lipsey argues that they have subsidies and we have subsidies, and if you take the difference, you have a level playing field.

While this may seem to be a promising solution on paper, the problem is that subsidies do not always come in matched pairs in the two countries. For example, in the case of the contentious issue of stumpage charges on British Columbia lumber, the Americans could claim that there are no subsidies at all on their own lumber, while in Canada lumber is cut on crown lands and benefits from the low fee the Canadian government charges.

If we simply applied the above formula, a countervailing duty would be levied that would virtually eliminate the Canadian price advantage in the American market. The only alternative way to accommodate the Americans would be to abolish the subsidy, that is, to raise the stumpage charges to the same level that Americans are paying for cutting softwood, or possibly to abolish the entire system of crown lands and turn them over to private hands.

This is only one illustration of the difficulties that await us if we try to achieve this standard the Americans call the level playing field or, alternatively, fair trade. There is a formidable list of things in Canada that would come up for questioning and scrutiny: industrial programs, regional development programs, research and development incentives, small business programs and so on. These might not all have to be abolished under a free trade regime, but they would certainly be on the negotiating table and at risk.

Instead of leaving this issue on a level of general abstraction, I would like to bring the issue very close to home to Ontario and to Ontario programs. I draw your attention to the latter part of page 7, where I offer a concrete illustration that is close to home.

One of the most promising ventures of the Ontario government, in my view, has been the \$30-million automotive parts investment fund. The auto parts industry is a crucial component of the automobile industry and employs some 58,000 people in Ontario, often in small- and medium-sized firms. The fund is designed to assist the upgrading of plant and equipment, product development and manpower training. The fund provides for loans of up to \$750,000 based on matching contributions from the private sector, plus an acceptable plan for modernization that must be approved by the Ontario government. These funds are term loans repayable after five years.

It is my understanding that to date some 40 companies have

received loans totalling about \$20 million. However, these companies are in the process of investing, on the basis of these loans, an additional \$90 million from the private sector. The whole program is projected to create 1,500 new jobs and to protect 3,800 existing jobs that may be in jeopardy.

Among the companies involved, I might mention H. E. Vanateer Ltd. of Wallaceburg, which will machine auxiliary valve body and rocker covers; Windsor Plastic Products Ltd., which will create a new injection moulding facility; Canadian Metallic Brake Ltd. of Concord, Ontario, which will make the first new nonasbestos brake block linings in Canada, and Caledon Tubing Ltd. of Caledon, which will make high-quality steel tubing.

This program is a prime example of the type of initiative we will have to pursue to modernize our industrial plant and equipment in Ontario. Without such an initiative, and I might add without the assistance of the government in this process, we will be unable to meet the challenge of improving our productivity and competitiveness, which is the key to industrial survival in the next decade.

What is disheartening, however, is that precisely this kind of initiative may be aborted by a free trade treaty. All the output from the plants I mentioned will be liable to countervailing action by the Americans to the degree that their products will be regarded as having been subsidized by the Ontario government. Moreover, no one is now in a position to say whether this program is or is not a subsidy, not even the Americans themselves. In my view, the main conclusion to be drawn is that a free trade treaty with the US is incompatible with setting in motion a serious industrial policy in this country.

For committed free traders, this statement will come as no surprise. They view free trade as itself a device for industrial restructuring to accommodate market forces. However, there are strings attached in this notion of market forces, which is one of conforming to the American economy. American policies on deregulation, taxation, anti-trust, financial and securities legislation increasingly would become the norms for our own economy only because of the awkwardness of running counter to them when economic activities are so closely integrated.

Since our monetary policy, our interest rates and our capital markets are already closely integrated, the room that would remain for economic manoeuvre would be minimal. It is not clear what would be left of the economic prerogatives of a self-respecting nation state.

Too many of these hidden costs have been obscured during the present wave of euphoria for a free trade treaty, but the difficulties are bound to hit home before long. When the maritime provinces begin to appreciate that their governmental programs for the fishing industry are in jeopardy, I suspect that their enthusiasm for free trade will wane. When British Columbia sees that its system of softwood stumpage charges are on the line, the same thing will happen. What will Albertans say when they realize they must stop subsidizing their petrochemical industry with cheap

gas, or Manitobans when it becomes clear that agricultural marketing boards constitute a prohibited subsidy?

Will the Consumers' Association of Canada be indifferent if generic drugs go by the board because we must fall in line with the American patent system? What is the response likely to be from some segments of the financial community and from the cultural community, the broadcasters and the publishers, when a free trade arrangement is made in these areas?

We have just come through a cycle of free trade euphoria, but I suspect we are about to witness a round of sober second thought. The flight off the bandwagon will soon begin. I should indicate at this point that I believe the position of the Premier (Mr. Peterson) has been exemplary on this matter. He stood his ground against all the other provincial Premiers and against the federal government, and I believe that his position will be vindicated before long.

It may turn out, however, that the only major catalyst in deflating the wave of American protectionism will be the American exchange rate, which has now begun to turn around. With a lower American dollar, American firms will be more competitive in their own market and the impetus behind the wave of protectionist bills before Congress will lapse. If by then we have not foolishly tied ourselves to a free trade treaty, perhaps we will be able to enjoy the fruits of the last round of the GATT negotiations and proceed with normal trade relations with our American neighbour.

Mr. Chairman: Thank you very much. That sums up a lot. Are there any questions?

Mr. McFadden: I have two or three questions, Professor Rotstein. We have had quite a number of witnesses, as you have probably read, economists, business people and labour unions, who have given us their theories on why economies grow and why they do not grow. One question I like to ask most witnesses is about the importance of trade to Canada and how you perceive Canada going in the future in terms of the way we will achieve economic growth.

As you well know, at this time in excess of 30 per cent of Ontario's economy is based on exports and about 90 per cent of those exports are going to the United States. It is safe to say this committee has expressed concern about that overwhelming dependence. On the other hand, we have become, remain and likely will remain, dependent on exports for a lot of our economic growth and jobs and so on.

2:30 p.m.

Could you comment in terms of world trade on how you see Ontario's position and what our alternatives are with regard to our trading patterns? Are we to diversify them or do you essentially believe we are likely to continue to be as dependent on the American market?

Dr. Rotstein: Mr. McFadden, it is true that the most rapidly growing area of our exports, including Ontario's exports,

is the Pacific Rim. However, it is an overwhelming fact of life that our trade relations with the United States are the closest. It is a somewhat puzzling and disturbing question as to why they have increased to such an extent. I do not mean the volume of trade has increased, but it is the percentage of our trade from the US that has increased so quickly.

It may be to some extent a sign of weakness in our economy that we are not modernizing and not being able to meet global competition outside the US at quite the rapid rate that we should. But I would be cautious about putting our dilemma as one of either continuing in our trading pattern with the US or doing something else. I think we definitely will have to continue. Any program of modernization and upgrading, while it should have an eye on Pacific Rim countries, must be based on the fact that the US will remain our major trading partner.

The issue is simply what are the best tactics to deal with difficulties that arise in relation to the US. We have to frame the question in such a way that we explore alternatives in relation to the new difficulties that the Americans themselves have raised.

I do not know whether this addresses your question directly, but it is fair to say that among America's major trading partners, we are the only ones in the game proposing a free trade treaty, and I underline the word "treaty." Japan is the United States' second largest trading partner; Mexico is the third largest trading partner; the European common market is a large trading partner, as well. None of these has raised the question "Why do we not have a free trade treaty with the US?" I suspect the Americans would regard such a treaty with Japan as bizarre. I think they would regard it particularly as bizarre if Japan were 10 times the size of the US. Therefore, we have to ask why Canada alone is engaged in this unusual initiative for which there are no precedents other than the single case of a free trade treaty with the state of Israel, which is an exception in many ways.

I hope this addresses your question. We have to sustain and develop the trading relationship with the US. It is unlikely, because of the inherent nature of what we are talking about, we shall be able to work out a free trade treaty. I suspect it may not be necessary and that we are going to lose a lot of time in the attempt to do so.

Mr. McFadden: There has been talk about the importance of trade to our economy and whether that is going to change at all, and whether expanding trade is not going to be necessary for our future economic growth. I take it from your remarks you are agreeing that trade, with somebody at least, would be necessary?

Dr. Rotstein: Yes.

Mr. McFadden: In the second area, we run into the same problem in this committee on the question of terminology. We have free trade, freer trade, enhanced trade, fair trade, level playing fields. Mr. Taylor here talks about "the ice rink being level." There have been a lot of terms. It is not even exactly clear what

the components of these talks will be if they do start, but are you against Canada initiating trade discussions or talks, not necessarily towards free trade per se or a comprehensive free trade agreement, but trade talks with the Americans to review irritants and opportunities for both sides?

Dr. Rotstein: It is always a positive step to have some mechanism to deal with irritants and problems on both sides; if you see what other countries are doing, there are far more severe irritants with the European common market, in particular over the questions of European steel in the United States and American agricultural products in Europe. What are they doing? They are playing hardball. The Europeans are indicating that a radical American move to cut down, say, steel imports will be followed by an equivalent European move to cut down, say, American agricultural products. I am not giving precise indications, but examples.

Mr. McFadden: We are facing similar problems.

Dr. Rotstein: We are facing similar problems and we are rushing for an exemption. The vocabulary is important. The array of pleasant-sounding terms, such as enhanced trade, liberalized trade and comprehensive trade agreement, is a self-deluding smoke screen because there is only one substantive problem on the table. Through American legislation and through legal means, they have set up a network of nontariff barriers. The only way to get around legislation is through a treaty. If one wants to discuss the issue in real terms, one has to be precise. If the problem is nontariff barriers, the answer has to be a treaty that will override them, if that is at all possible.

Consequently, I find that the discussion about enhanced trade and a comprehensive trade agreement is really more romantic than realistic. It does not address the question, how are we going to avoid them lowering the boom on us with countervail and anti-dumping, which is the problem that is on the table? The answer is that if they were willing, it could be done through a treaty.

My second point today is they are not willing. On the crucial issue of exempting Canada, the Americans have said they cannot do it. I should tell this committee that I have some sympathy with the Americans on that point because no national state can afford to relinquish the basic power to evaluate incoming goods, to restrict anti-dumping and to set quality and product standards. It would be difficult for them to give us an absolutely clear channel.

Once the problem is set up in that way with their legislation and once the problem of a subsidy, which is what they are gunning for, is vague and undefined, all kinds of funny things are going to happen, partly as a result of political manoeuvring and partly as a result of new bills in Congress. We are asking for something that (a) they are unwilling to give, (b) they cannot give, and (c) we are never going to get.

Mr. McFadden: Representatives from specific industries

have appeared here. We have had quite a mixed bag of reactions from people about this. We shall be going on for some months. Some industries have very specific concerns about protectionist moves in Congress. I guess the question is whether, in addition to a comprehensive agreement, specific industries or groups of industries might work out arrangements. They might not be comprehensive, but arrangements would be worked out.

For instance, the Urban Transportation Development Corp. talked about an arrangement perhaps being worked out, given government procurement is done both ways, for some urban transit vehicles. Steel is concerned. They have a very good argument in that on balance the Americans do very well in steel if you add in raw materials, finished goods and so on.

Are you saying you do not believe that, effectively, anything profitable could come out of any trade talks? Do you think we should basically let the thing go on as it is and have general discussions from time to time with the Americans? Do you not think we could profitably enter into discussions on a range of issues?

2:40 p.m.

Mr. Rotstein: I am certainly not against having talks and I am not against removing irritants. I distinguish between discussions and negotiations. If one looks at the text our Prime Minister put forward in Ottawa, I believe the word was "negotiations." It has to do with steps towards working out some kind of treaty arrangement. I do not believe those are going to get anywhere and there are dangers in initiating such a course. It may be difficult to back off and you may have to give up what you had not intended. No reasonable person would be against finding ways to remove irritants.

Mr. McFadden: One final question I have relates to the incentives offered by the United States.

My impression in dealing with various American state jurisdictions, and their national government as well, is that their range of incentives for their industry in some states is broader than Ontario's by far. I notice you commented on what we did to the auto parts industry; however, if you compared the package of incentives an industry could get in New York state as against what it could get in Ontario, and that was the only basis on which somebody was locating, he probably would locate in the state of New York. They put together there tax incentives and a whole range of grants and everything else. Are you aware of any study or have you done a study yourself that would compare incentives, jurisdiction by jurisdiction, to weigh them?

From our point of view in Ontario--and I am not talking about where the Department of Regional Industrial Expansion might apply; there might be some incentives--you can stack us up against any major industrial state in the United States and you will find that our incentive programs probably are less on balance in what anyone would define as incentives than any American state in grants, tax, subsidies and things of that nature. Are you aware of any study on that?

Dr. Rotstein: I am not aware of any study. It is a blind spot or at least a half-blind spot with Americans. Other countries have subsidies, certain inducements and administrative arrangements. It is not going to be easy to start negotiating different chips, one side or the other.

I should add there is an additional problem. American law does not formally recognize its own incentives as subsidies. Other countries have subsidies and that is what matters when you bring an injury case to an American trade tribunal. It would involve a change in the way they do things in their own trade tribunals to bring forward at the same time for weighing their own programs in the balance, particularly if they are state programs.

Mr. Cordiano: A supplementary: Would you agree on principle with the notion that it would be beneficial in economic terms if we could remove all the nontariff barriers and that kind of treaty or negotiation?

Dr. Rotstein: If it were a free, one-way ride, the answer is yes.

Mr. Cordiano: What do you mean, one-way ride?

Dr. Rotstein: There is a price tag on removing these nontariff barriers and they have told us that they will remove them if they can get fair trade. That is to say, we are not going to ship them a lot of Canadian goods which they would regard as having been highly subsidized by the Canadian government, therefore, underselling American products.

We do not know which range of programs will get into that net of programs that are underpriced Canadian products. I have referred to some of them. In a nutshell, we spend \$4.5 billion in Canada on various kinds of industrial programs. The industrial and regional development program of the federal government is alone \$344 million. Each one of these things is now up for scrutiny as to whether, from the American point of view, it is an illegitimate subsidy. Therefore, the only sure-fire way to get in is if you pull the plug on all those programs and then there is nothing they can shoot at.

Mr. Cordiano: Is it not reasonable to think that we have something to shoot at on their side of the border? We have talked about subsidy. Indirect subsidy is the whole question of defence spending on their side, and all the spinoff benefits they get from that defence spending.

Dr. Rotstein: That is right, but you are into a new kind of arithmetic that nobody has done before. It will be quite a question as to what it is possible to put into one country's balance as against another country's balance. And there is the problem I mentioned earlier. It is not part of the American legal process to regard their subsidies and incentives as part of the argument.

That was exactly what happened in the case of hogs. We subsidized hogs; they subsidized hogs. We got slapped with a

countervailing duty because our hogs were subsidized and their subsidies were irrelevant. That is the kind of problem.

Mr. Cordiano: In a sense you are saying that you do not have confidence in our ability to negotiate, to include these other items--what is going on as far as subsidies in their own country are concerned.

Dr. Rotstein: The terms of reference of a such a negotiation would have to be expanded and would have to be accepted by the Americans as legitimate areas of negotiation.

Mr. Cordiano: Most members of this committee would agree that if we are not talking about removing nontariff barriers on their side of the fence, then we are really not talking about anything.

Dr. Rotstein: I have quoted statements from the two key players, William Merkin, the Deputy Assistant US Trade Representative, who says, "No dice," and US Trade Representative Clayton Yeutter, who says, "It cannot be done."

Mr. Chairman: You talk about the idea of an international tribunal being Utopian, and we have been playing around with the idea of having an international tribunal. But even if the US continued to keep its countervailing legislation, if we had an international tribunal to which matters could be referred before countervailing procedures, could that not have a strong influence on the judgements of their tribunals?

Dr. Rotstein: We do have the experience of the General Agreement on Tariffs and Trade, which is an international tribunal. Cases are brought there, and it is fair to say that they do have an influence. However, it is a genuinely international tribunal. From the way in which Mr. Macdonald uses the term "international," he probably means that we have a team, they have a team and there may be a neutral chairman of some kind.

The strength of the international tribunal in GATT is that we get other countries on our side from time to time on certain issues; or if the issue is particularly obstreperous, it is likely we will have support from various other countries, and that helps whatever moral leverage happens. A one-on-one is not so obvious, although it is called international.

Mr. Chairman: So you are saying that any influence would be very marginal.

Dr. Rotstein: It would be marginal in its influence. Second, I am sceptical that the Americans would allow serious legal precedents to be made by a tribunal that falls outside their own trade and legislative machinery. In other words, it is not clear how they can accept this as binding when they have a very clearly articulated trade process.

Mr. McGuigan: Have they not done that with the automobile trade pact and the Israeli pact?

Dr. Rotstein: In regard to the automobile trade pact, I believe the US government has no legal position. I am not an expert on the pact, but I believe it is the Canadian government and the Big Three who are involved, and the US has taken a benign interest in it and support it.

2:50 p.m.

In regard to the Israeli agreement, the important thing to note is that despite negotiations with the Israelis--and the Israelis pressed for this--the Americans have never conceded the right to levy countervail and anti-dumping, so it is a free trade pact, subject to the basic right to levy countervail and anti-dumping.

I believe the Trade and Tariff Act of 1984 applies in this case. The Israelis have undertaken to remove export subsidies, which they think of as a distinct class. But the Israeli economy is so riddled with subsidies backwards and forwards that it is not going to be easy to distinguish which are the export subsidies, which are the domestic subsidies and when the shoe begins to pinch. It is already beginning to pinch in one case. A chemical plant in Ohio has suddenly been swamped by a competing chemical product from Israel. The congressman has been making noises about it. It is early in the day.

Mr. McGuigan: That will be a test case for the Israeli pact.

Dr. Rotstein: It will be interesting. Both sides recognize and accept that American countervail and anti-dumping legislation is not suspended in the Israeli pact. It is clearcut that it applies.

Mr. Morin-Strom: Why do you think Canada and the United States always seem to be at cross purposes with trade objectives? When they become protectionist, why do we want to be free traders? Can you give us a little background or feeling why that has gone on historically?

Mr. Taylor: Is that a correct assumption?

Dr. Rotstein: A couple of papers were written for the Macdonald commission that argued there was a kind of counter-cyclical procedure. When they get protectionist, we veer towards free trade, and when they want free trade, we veer towards protectionism. It has something to do with whether economic times are good or bad.

I do not know whether that cycle fits perfectly. There is something in it. I would prefer to describe it as our being out of sync when the interest and the pressure come. I also add that we should not exaggerate the interest or the importance for the United States of a free trade treaty with Canada. For us it is the number one issue and it will be the crucial decision in regard to

how we orient our economy. The Americans are in a take-it-or-leave-it mood.

I should not exaggerate that point. It would be useful for them politically in dealing with a very angry and protectionist Congress to be able to say: "Cool it. We can work out a free trade agreement with Canada. Hold it on those 300 protectionist bills." That would be a useful bargaining chit. It is not so very different from what they did when there was pressure to do something about South Africa. They said, "We will stop the import of krugerrands." It was a token political gesture to stem something that might have been worse.

There are no serious matters at stake for them if they do not succeed in achieving a free trade treaty with Canada, particularly since we have never made belligerent noises about countervail and doing the tit-for-tat sort of thing the Europeans have done. I hope that addresses your question.

Mr. Morin-Strom: Perhaps we could go on to the question of the status quo. One of the arguments we have heard from most of those who are strong advocates of free trade is that the status quo is no longer an option, that protectionism is running rampant in the United States and that the consequences are going to be devastating if we do not get some type of trade agreement.

You have said that despite our best efforts, you do not think we will get one even if we want one. There also are many who do not want one. Under the assumption we do not get a trade deal, what do you think will happen based on the protectionist mood in the United States? What would we be in for under the status quo option?

Dr. Rotstein: I should advise this committee, if I have not already implied it, that my views are rather atypical of the economics profession. That might make them more or less credible with this committee. I leave that to its judgement.

Many economists who argue the idea that we cannot stay with the status quo have in mind an implicit assumption that a free trade treaty is going to achieve two different objectives. The first is that it will enhance and ensure our trade. The second is that it is going to be an indirect way of overhauling the economy. As William Diebold said recently in a study for the Macdonald commission, what the discussion of free trade is really about is industrial policy in the two countries.

What the free traders are trying to do, in my language, is to shoot at two targets with one gun, trade and industrial policy. They will assume, therefore, that if you do not get the trade treaty, you are not going to have an industrial policy, or if you try to have one you will probably screw it up because there will be all sorts of mistakes picking winners and losers and so on. On the assumption that if you do not get a free trade treaty and do nothing, we cannot maintain the status quo if they are correct.

What I tried to suggest to this committee was that we should not do nothing. There are precedents in Ontario, and I cited one

of them, the automobile investment fund, that I thought was off to an excellent start and was an example of what could be done in other industries to encourage upgrading, modernization, retraining and all the things that need doing.

For the free traders, it is either free trade cum industrial policy on one side, or nothing on the other. For the rest of us who see the importance of maintaining trade with the United States in a realistic way, it must be accompanied in my view by some program to modernize and upgrade Ontario industry. We also have to address the problem of the auto pact, which is our most serious industrial difficulty and a very complex issue. Finally, we have to make some kind of cool bet on what is going to happen.

I think the free trade movement is a result of panic that is underpinned by one item, the high American dollar. It already has turned around by 6.4 per cent since the agreement among the five finance ministers. If you stop and think, if it goes down further, one could say in colloquial language that the heat is off. The impetus for the protectionist bills will subside, the Americans will not be priced out of their own market, it is likely the political pressures will ease and we will be able to move forward in the very progressive way we have been doing, trading in the American market.

However, I argue that the problem of an industrial policy is a separate one and has to be tackled deliberately. Therefore, I am not for keeping the status quo; I am for improving it, but with a proper program.

Mr. Morin-Strom: We have the two sides. We have the trade scare because of protectionism and the need for an industrial strategy, which many in the business community do not want and do not believe we need.

Are you suspicious of any of the business community's motives in this debate, particularly on the issue of economic nationalism? Do you think the business community is concerned about economic nationalism in Canada, about our ability to maintain a distinctive Canadian way of life, particularly in the economic realm, or do you think many of them would prefer to have pressure on the Canadian government that would lead it to move towards the same economic rules, certainly in areas such as taxation, as those to which American firms are subject?

Mr. Ferraro: The closet Americans.

Mr. Taylor: You should define "distinctive Canadian way of life" when you are answering that and should indicate whether it is sort of a semi-permanent condition or a vibrant, changing one.

Dr. Rotstein: There are at least half a dozen good questions there.

Mr. Brandt: Choose the ones with which you feel most comfortable.

Dr. Rotstein: The problem with professors you may not appreciate is that it does not matter what question you ask. They have prepared answers and they are going to use them.

Interjection: Just like politicians.

Mr. Taylor: Politicians do that, too.

Dr. Rotstein: I did not know that.

Mr. Taylor: Politicians are more optimistic than you are.

3 p.m.

Dr. Rotstein: I would begin by distinguishing between the spokesmen for the Canadian business community and the Canadian business community. There is reason to believe that the unanimous statements of support for what they have called a trade enhancement program, or more currently free trade, does not have the full support of the business community. Some of you may have noticed a little clipping in the newspaper about three days ago that a survey of Canadian businesses has discovered only 25 per cent actively in favour of a free trade arrangement with the United States.

However, it is true that the Canadian Chamber of Commerce, the Canadian Manufacturers' Association and the Business Council on National Issues speak with a fairly uniform voice and presumably they have some support on that basis. Much of the bandwagon that has arisen in the past few years is, as I suggested, a result of panic, a fear of being locked out and a hope of moving in quickly before the curtain comes down on this. The panic is exaggerated. The objective is not easily reachable in that case. That is the first point.

The second point has to do with what is likely to happen as a result. A lot of people will tell you that it will be the end of Canadian sovereignty. I am not going to say that because the term "sovereignty" is a rather vague and loose term. I am prepared to point to concrete areas where our decision-making powers would either be compromised or eliminated, and that is an important concern.

There are overt and hidden strings that come from a free trade treaty, apart from the fact that we will have to hoist many of our industrial programs. I suggest that it will be difficult to buck American anti-trust legislation and the whole regulatory deregulation movement. We are already locked into American monetary policy and interest rates.

One point I did not raise is that you cannot have a free trade treaty without an agreement on the value of the Canadian dollar because it is possible under such an arrangement for one country, namely Canada, to make a sudden devaluation of its currency. That would potentially give an enormous trade advantage to its products in the American market. The Americans would be foolish not to have some understanding about the constraints and

limits on our exchange rate policy. We in turn might have to pay the price if we went that route.

If you add up all those constraints--

Mr. Taylor: Excuse me. That very point has been concerning me for quite a while, not just today. Can you enlarge on that a little as to what options might be available with respect to an arrangement? Would you arrive at a fixed rate of exchange? How would you handle that mechanically?

Dr. Rotstein: Do you mean what the terms might be if both sides agreed to an exchange rate policy under a free trade treaty?

Mr. Taylor: Yes. You are saying there would have to be some arrangement with respect to the exchange rate. Assuming that, by your observations, what would the terms be?

Dr. Rotstein: The usual way it is done these days is to have a band, a lower limit and an upper limit, within which to operate. The lower limit would be of concern to the Americans. We would have to give assurances--and this is speculative because we do not know how these discussions will go--that we would not drop below such and such a level because that would give an added advantage to our goods in the American market. Whatever it is, and it is very hard to predict, my point is that we would be tying our hands on that question.

Typically, economists will tell you that if you have a freely floating exchange rate, there is no problem. The market decides. However, that has a touch of Alice in Wonderland to it, because everybody knows that Mr. Bouey has been doing a lot to keep the Canadian exchange rate at a certain level, in my view in a misguided fashion. The five ministers of finance met 10 days ago and decided on a lower American dollar. The idea that the free market will look after it and it is not a problem is highly unrealistic in this case. In other words, exchange rates are not completely the result of governmental decisions, but governmental decisions have an important effect. My concern is that we will tie our hands with one more knot.

Mr. Taylor: A point was raised in answer to you. The high American dollar is probably fundamentally tied in with the massive American budgetary deficit. If we get into something such as that, are we determining externally what our budgetary deficit should be or what theirs should be? I wonder how far you carry this along. This also ties into the question you were responding to in regard to sovereignty.

Dr. Rotstein: I accept the import of that question, which is that sovereignty is a rather vague term that comes down to what powers you have to make decisions. My general perspective is this: We are in for all kinds of trouble in the industrial sphere in the next decade because manufacturing plants are moving offshore to southeast Asia. The fact is our automobile industry does not have a secure future.

We have to have various techniques available to deal with pressures coming out of left field, so to speak. One is to drop our exchange rate, which we may have to do under various pressures. We may have to do it if we become increasingly less competitive. We may then have to offer our goods at a lower price to sustain employment in certain areas. We may have to do it because of problems with our interest rate, our money supply and various other things.

I am only going as far as to say that with so many uncertainties in the field in terms of industrial attrition, departure of manufacturing companies to southeast Asia and the various kinds of quotas we are trying to keep in place, we have to keep our options open. We do not know how the scenario will work. In my view a free trade treaty will necessarily close that option to some degree.

Mr. Taylor: if you want to keep open the option of not having to get into fixed rates of exchange, would not the maintenance of countervail and anti-dumping be a partial response or solution?

Dr. Rotstein: Do you mean on our side?

Mr. Taylor: Yes.

Dr. Rotstein: It could be. We have been more partial to quotas, to trying to have an arrangement with regard to textiles and, to some extent, Japanese automobiles. The second thing we have been trying to do with less success, which is very important, is to get people to build plants here rather than ship in; that is, production quotas as well as import quotas. They are a short-to medium-term device. We have been reluctant although we have legislation; I think we use some, but I do not know the details. We have anti-dumping legislation in cases where injury can be demonstrated and where we can show the goods are being sold at less than they are back in the home country. However, it has not been a major device with us.

Mr. Ferraro: Professor, since June I have been in a cloud and the cloud is getting thicker and thicker over this whole thing. I am going to make some general comments and then I would like your impressions.

You touched before on the idea of an industrial strategy. First, perhaps you can indicate to me whether Canada has ever had one. Second, could we have one based on our distinction of powers? The provinces have more authority and can actually buck a treaty as opposed to the United States system where individual states have to abide by a federal treaty.

3:10 p.m.

It is ironic to some degree to look at the federal initiatives. They want negotiations on free trade with the US when we do not even have free trade within our own country. I bring the two together for the simple reason that if we have problems as a nation, how the hell can we ever have a unified strategy?

Dr. Rotstein: Your point is well taken. I can only make some subsidiary comments that underline to some extent what you have been saying. The term itself may be a little misleading. There may be no single grand plan called an industrial strategy that anybody could muster which could be effective if there were no problems in federal-provincial relations or which was sufficiently prophetic to see into the future.

Mr. Ferraro: We could never be Japan.

Dr. Rotstein: That kind of thing is another problem.

On the other hand, there are lots of things we should be doing for ourselves. The way this country works, if there is a vacuum at the federal level it is filled at the provincial level. Provincial governments have been trying different things, not always successfully. As I pointed out, I thought the automotive parts investment fund was a good model that could be followed by other industries in Ontario. Since Ontario is the heart of our manufacturing capacity, it has a responsibility to pursue such programs.

Another component of industrial strategy, and a totally different problem, is government purchasing in this country. At all three levels of government it is estimated we deploy something like \$60 billion. A lot could be done if we put our minds to it to focus that purchasing program to foster industries that we might do well at and that could grow, if we co-ordinated it and succeeded in breaking through provincial barriers.

It should also be noted that one of the key items on the agenda for the Americans in the free trade talks is the elimination of any preferences for Canadian firms in the expectation, of course, that they would eliminate preferences on their side. That has to be carefully considered. In the meantime, the question of using our government purchasing programs in a more focused and directed way to build up our industry would be a very important thing we could do.

The final point I would like to make is not in the context of the free trade idea. I do not think in that direction because I do not think it is very feasible. If you look at the numbers, we are the most import-prone country of any industrial country in the world.

Mr. Ferraro: Next to Saudi Arabia.

Mr. McGuigan: Exports too.

Dr. Rotstein: No, I think export figures are a little different.

Mr. Ferraro: I am thinking of Ontario and Saudi Arabia.

Dr. Rotstein: The imports typically tend to be in the medium-tech and high-tech sectors. We have to do some thinking about that. It seems to me there could be programs to take better advantage of our own market for some of those items and to do some

import replacement. We cannot do it for everything across the board. That would be futile. We could, however, target certain areas where we could build up industries, engage in some import replacement and at least get a better balance.

I am not talking about closing off the country; that would be ridiculous. I am talking about the fact that we are out of balance in the extent to which we import manufactured and high-tech goods in this country. You all probably have the figures.

Mr. Ferraro: This one is really bothering me. As to your comments on the automotive parts investment fund, it has been very successful and I can see that going on provincially. Are you suggesting we could do something nationally? Is it not really a pipedream to suggest that we are going to get Quebec to change its mind about its nontariff barriers or that the breweries are going to have freedom to distribute without having plants in the provinces? Logically, can we ever have free trade in Canada?

Dr. Rotstein: It would be a brave man who would predict it, but the universal chorus of assent that the provincial Premiers have given to the idea of a free trade arrangement with the United States is premised on the fact--I do not know whether they fully realize it--that they are going to wash out all those things. The way they are going to wash them out is to make American companies equal with their own local companies when it comes, say, to government purchasing or any of the other things.

Whether they appreciate it or not, they have assented in principle to creating not simply a common market in Canada but a common market in North America. If we came back to them and said, "All right, we are only asking you to go half way, let us have a common market in Canada," we may have to prove to them that this is not all for the benefit of Ontario and show how this would work out and perhaps work out some arrangements with them.

The issue is on the agenda and I think they would begin to appreciate this. That is about as much as I can say.

Mr. Mackenzie: To go back to a question first asked by my colleague that you got into quite a bit, two or three of the key arguments we get from the people supporting free trade talks is that we cannot retain the status quo otherwise, as was mentioned. Then we usually get thrown at us, "What is wrong with at least talking about the issue to decide the parameters if we cannot enter right into the talks?" What is your response to that?

They are suggesting that maybe we can sit down and negotiate on certain sectors. I suspect the answer is in the two quotes you read to us. I wonder if you have anything further to say about sitting down to talks, to do nothing more, as a start, than set the parameters.

Dr. Rotstein: It is hard to visualize the nature of the table around which these discussions should take place. Let me answer your question indirectly. What is going on now in this country is the largest, ongoing floating educational seminar we have ever had. We are all discovering things about this country that we did not know were going on.

Who knew the details of stumpage charges until it became an issue with the United States? Or the details of the fishing support programs in the Maritimes? We are going to discover these things increasingly. There would be benefits, not in negotiations, but in some discussion with the Americans if we were kept party to it. We would learn clearly and explicitly what we are doing and how they view it, and what they are doing and how we view that.

I may be wrong but I think we would establish at least whether there is anything in what I say, that there are no basic possibilities of agreement on the issues that matter to both sides. They are not prepared to give us a way through, an exemption, on their countervail and anti-dumping and we have reservations on cultural industries and perhaps on a number of other things we have mentioned, such as agricultural marketing boards, which they could not possibly accept under this arrangement. It would clear the air.

Mr. Mackenzie: In your opinion, could that be done in the context of discussions, not negotiations, that would try to deal with the irritants that could develop in our trading relationship? Could we look at the specific irritants as they arose and see whether there would be some better form of arbitration to deal with them?

Dr. Rotstein: It is very hard to disagree with that kind of sentiment and mood, but there are two ways to deal with irritants, to get down to cases. One way is to get a legal exemption. The other way is to go the Japanese route, which is to build the most complex and effective lobby system in Washington that has ever been seen.

3:20 p.m.

For example, the Japanese have hired virtually every graduate of the Office of the United States Trade Representative and put these graduates on their payroll. They have visible lobbies and their own subsidiaries in the United States which lobby as American companies over and above that. Estimates of what they spend are a bit vague, but one estimate places the amount at about 10 times what we spend on influencing opinion, getting allies and working with different groups in the US.

Most of you know what this strategy is about. For example, if the issue is softwood lumber and the American lumber interests are out for blood, then you get the American consumer associations who want cheap lumber on your side. You have to orchestrate that. We have just got into this game. This is what Mr. Gotlieb has been doing. It is called public diplomacy, in contrast to the earlier private diplomacy. I do not know how else you deal with irritants.

There is the third area where there is a little administrative leeway in between the legal pressures the US government can exercise, but it is a limited thing. I would get down to it. I do not think the kinds of irritants that come up lend themselves to everybody being nice guys: If we are nice to them and they are nice to us, they will brush the irritants aside. There is a whole legal apparatus the lobby groups are mobilizing

in place and you have to decide that you are going to work it either legally or politically.

Mr. Mackenzie: If we did take that approach, you are telling us--and this is also one of the defences used by the opponents of such an approach--it is going to cost us both time and effort.

Dr. Rotstein: Pay now or pay later is the answer, is it not?

Mr. Mackenzie: I know.

Mr. Chairman: To what extent do you endorse that? You are saying it is costly, but it is an option.

Dr. Rotstein: I endorse it absolutely. It has been a proved phenomenon through the Japanese and, to some extent, the Europeans, the French and the English. There are really sophisticated lobbies, and it pays. We should do more of that. I am not suggesting that Ontario as a province could take the initiative.

Mr. Chairman: Why not?

Dr. Rotstein: There is a diplomatic protocol involved, but if you think you can, God bless.

Mr. Mackenzie: I have another question. One of the other reasons constantly given for the argument that we have to enter into these comprehensive or otherwise, free or freer or liberalized trade talks is simply that international competitiveness requires it. I wonder if you would give us your answer to that argument.

Dr. Rotstein: I am afraid I will have to repeat myself. It is the argument that I call two targets with one gun, that is to say, they are trying to upgrade the industrial structure in this province through the use of a free trade arrangement and, we have to add, at the expense of eliminating the role of government almost entirely. That would be a subsidy and not a level playing field.

I question whether it can be done that way. I agree with the competitiveness problem and I agree with the upgrading of productivity problems. However, it is Utopian unless we have some programs. I do not mean government can run them and I do not mean the government can pick winners. Government should ask winners to pick themselves and step forward with upgrading programs; then it should scrutinize them in a very hard-nosed way and, where they seem to work, put some money into them.

Mr. Mackenzie: It is almost essential that we develop some industrial strategy, or whatever you want to call it.

Dr. Rotstein: Absolutely. That is a basic premise we will have to follow regardless of what materializes.

Mr. Mackenzie: I would like to get your reaction to a

final point. Yesterday Dr. Neufeld of the Royal Bank of Canada called the auto pact a form of free trade arrangement. He is only the second person I had ever heard call it that, and it has not been my observation. What is your observation of the auto pact?

Dr. Rotstein: It is an extraordinarily misleading statement to call the auto pact a form of free trade arrangement. Any free trader worth his salt knows that when the doctrine was first conceived and as it was subsequently used, it could not build in a guarantee on employment and production. That is the meaning of free trade.

With regard to its present relevance, the Americans have said on a number of occasions that the auto pact will not be repeated. It was said at a conference on this question I attended in Detroit at the weekend. Why? Because there can never be--"never" is too big a word--there cannot be a re-creation or a repetition of either production guarantees or employment guarantees.

So it is not a model of anything but rather a one-time event, and certainly not an argument in favour of free trade. Free trade has nothing to do with that kind of arrangement, and I am surprised, frankly, that is the way the issue was put. I will not say more.

Mr. Morin-Strom: Is that not just another example of the Americans taking an item off the table into preconditions? To a lot of Canadians the auto pact is viewed in the context of fair trade as a perfectly legitimate type of managing of trade that ensures that benefits are fairly distributed.

Dr. Rotstein: We should be fair to both sides. The Americans have said: "We will not go that route. We will not repeat that kind of arrangement." Mr. Clark has said, "We will not put it on the table for negotiation."

Mr. Morin-Strom: So we have already given up on that one.

Dr. Rotstein: Probably they mean the same thing, that if it were put on the table, it might be dismantled. At least it will not be repeated.

Mr. Chairman: I have four more questioners and I would like to wind up close to four o'clock. We will be going extra long today because we have another witness.

Mr. Taylor: I will be brief. As a matter of fact, most of my questions were partly responded to in questioning by some of the other members. I was particularly interested in the questions of Mr. Mackenzie and Mr. Morin-Strom, because I was trying to get some sense of the nature of your minority report when the committee reports.

Mr. McGuigan: Kind of slow, are you not, Jim?

Mr. Brandt: Slow he is not. Many things he might be, but not slow.

Mr. Taylor: To go back to the title of your paper, Free Trade Versus Industrial Policy, in some of the questioning over here you indicated a couple of matters that might be included in an industrial policy. I read the title of your paper, and it was more what you did not say than what you did say that concerned me. I was wondering whether you had not a grand design but some sense of some cornerstones or key policies that might be put into play.

Dr. Rotstein: I have mentioned a few. I hope it does not sound too immodest if I refer to a book I published about a year ago called Rebuilding from Within, which reviews some of the possible techniques we can follow. The main point I try to make in the book is that there is no one grand design and there are too many risks and uncertainties to bet everything on one game plan.

I thought, therefore, we should split our risks and have, following the analogy of the financial community, a portfolio of industrial policies in which the risks are balanced in different ways. Within this context I thought that, while it might look contradictory, I would go for targeted import replacement at the same time as I would go for trade expansion through upgrading, competitiveness and productivity.

The basic thing I hit on, I discovered, had been stolen by the Ontario government before I had even thought of it. That was the notion of matching dollar for dollar in an upgrading program by some of these manufacturing concerns. I understand there is a further wrinkle that is very useful, which is that some of these loans would be forgivable if the companies involved paid the retraining expenses. You would then forgive the loans to the extent of those expenses, so you would finance the retraining that goes with it.

Mr. Taylor: Which is really a part of the Ontario program, is it not?

Dr. Rotstein: That is right. I do not know whether that has actually been put into place, but it is intended.

Interjection: It has been.

Dr. Rotstein: It has been put into place, yes, and I think it is a very useful part.

3:30 p.m.

Mr. Taylor: Incidentally, I might perceive that as one of the adjustment mechanisms that could be considered in the Macdonald report sense of adjustments that would have to be made, and that involves government participation surely and retraining.

Dr. Rotstein: That is right. The TAAP, the training and adjustment program, I think is the sort of thing that was envisioned, and I was delighted to see it in place. I do not know if it is actually working, but I am told it is being implemented.

Mr. Brandt: You are talking about the total program under the auto parts investment fund?

Dr. Rotstein: Yes.

Mr. Brandt: You mentioned that. I think something in excess of \$20 million of a \$30-million fund has actually already been put in place. But the retraining aspect of it is in place in the H.E. Vannatter firm from Wallaceburg that you identified. They do have that as part of their components. There is a forgivable portion of the loan which is returned to the industry in question if they agree to upgrade or retrain employees who are with the plant now in order to ease them into the adjustment period. That is in place.

Dr. Rotstein: Good. Thank you very much. I am delighted to learn this for a fact.

I paid some attention in that study to monetary policy. I think, more than anything else, there is virtually one single factor--we have suffered from overly high interest rates. Even today, even though interest rates seem to have come down, what we call real interest rates, the net rate of inflation and actual interest rates is very high. They are far too high.

This is not a program I can direct to the government of Ontario, but I certainly think it would put on a little pressure to bring interest rates down some more. I think that would be an important incentive, an important prerequisite to getting investment spending going again, because it still costs too much to borrow from the banks. If we could get the interest rates down, it might be an additional incentive.

Mr. Taylor: What you are saying is that the spread is too large.

Dr. Rotstein: Yes. What we call real interest rates are as high as they have ever been.

Mr. Taylor: Maybe they are trying to cover off some of the bad foreign loans.

Dr. Rotstein: The "they" in this case are not the private banks. The "they" in this case is the central bank.

Mr. Taylor: That is the third?

Dr. Rotstein: Yes.

Mr. Taylor: You mentioned import replacement. You mentioned the type of program and the automotive industry for upgrading, retraining, etc., and you mentioned interest rates. Were there any others?

Dr. Rotstein: I think we have to look at the question of production quotas. We do not have many cards to play in this game of industrial poker which is going on, but one of the few we have

is access to our rich market. We have tried and been partly successful--not enough I think, say, with the Japanese and the question of building an auto plant here. I think we have to turn the screws much harder than we have and go along the general line, although it would have to be applied carefully in practice. If you are going to sell here, you have to produce some of the stuff here, that kind of thing. I think we are in a very weak position in regard to future employment, both in Ontario and in the country as well.

Mr. Taylor: That would be selective based on certain sectors or industries and countries?

Dr. Rotstein: Yes. I think the message should go out that this is what our policy is before people move to Malaysia and Singapore, because it will be very hard to get them back. Mainly if they do pick up and ship out to produce in southeast Asia, they may have some trouble selling the stuff back here.

Mr. Taylor: I sensed during your presentation and responding to questions that you were suffering from some despondency in regard to the shift from North America of this massed-produced standardized type of commodity. It is simple to transfer the technology and automation. I am thinking of maybe even Toffler, Naisbitt, Wright and some of these people, and presumably you give some credit to that.

Dr. Rotstein: That is right. I do that partly because we do not have the capacity to shift into the new ball game, which is the high-tech industries. If you examine Canada's high-tech expenditures for research and development, they are notoriously low. Therefore, we have to hang on harder to the smokestacks, as they call it, then others might until--and this is the final plank of the kind of industrial approach I would take--we manage to beef up our research and development, not through fake tax exemption programs such as we have had, but in genuine ways to get into this game because it is the key to new products and modernization.

Mr. Taylor: I gather you are positive, in that you feel we would be able to compete in the smokestack industries if we could upgrade, modernize or whatever is necessary to get the state-of-the-art production mechanisms.

Dr. Rotstein: I think we would have a very substantial niche, but we have to move quickly. Ultimately, the payoff in research and development is not in that fancy, rarified atmosphere called high tech. The way you apply the high tech to the smokestack industries and upgrade is the important point.

Mr. Taylor: I am looking at it globally because with all this, of course, there has been a worldwide rationalization that has been going on regardless of our bilateral talks or responding to particular moves on the part of the United States which are protectionist in nature. This change is taking place anyway, which we see shaking out in the larger industries. You have less employment there and more in small industries. We heard that as recently as this morning.

There is a view that the economic centre of gravity, so to speak, is shifting from New York to Tokyo. Do you see that type of shift taking place?

Dr. Rotstein: I wish I had the right crystal ball, but I think it is a very distinct possibility. I recall Lee Iaccoca saying, probably less than three weeks ago when he visited Windsor, "We have lost the trade war with Japan," speaking in reference to the United States.

I do not want to decide as between one and the other, but I cannot veer much more widely than sort of 60-40 one way or the other as to whether the United States or Japan will win this one. I think it is distinctly possible Japan will. Whether it does or not, the movement is on toward the low-rates countries.

Mr. Chairman: I wonder, Mr. Taylor, if you could hold your next supplementary, and also Mr. Cordiano. Unfortunately, our next witness apparently has to catch a plane and be at the Royal York at 4:10 p.m. I am wondering if we could hear from him for maybe 15 minutes. Pardon my interruption, professor, but if you could wait, I know we want to continue questioning you, if that is possible.

Dr. Rotstein: I would be delighted. I have a free afternoon for this committee. If you will forgive me, I will step out and come back in 15 minutes.

Mr. Chairman: Thank you.

Mr. Brandt: There is no free lunch, but you can have free coffee.

Mr. Chairman: It is important we hear, even if albeit briefly, and I hope we hear much more extensively from some industries that are culturally oriented, if you like, because we have not emphasized this to a great degree prior to our interim report. I hope we will eventually. William Stevens, Jr., chief executive officer of Crawley Films Ltd., has a brief oral presentation he wishes to make and perhaps he can entertain a few questions. I appreciate your waiting this long, sir, and I understand you thought you would be on sooner this afternoon.

CRAWLEY FILMS LTD.

Mr. Stevens: Thank you for inviting Crawley Films to discuss the impact of our industry on free trade with the United States. I hope, incidentally, you will not be disappointed in the brevity of my presentation. The statement is a relatively simple one.

3:40 p.m.

First, I would like to establish our credentials. Crawley's is 46 years old, and I think has four distinctive attributes which perhaps better qualify it for this presentation than any of its peers or competitors. We have completed film assignments in more

than 30 countries covering five continents around the world. More than 150 films have been for US clients. We have a long history of and are currently exporting our product to many countries around the world where it appears on television and in movie theatres.

We have received nearly 300 awards at film festivals and competitions on every continent. Of these, 75 awards have come from the United States and 60 from abroad, from Edinburgh, Brussels, Venice, London, Rome, Milan, Berlin, Paris, Salzburg, Barcelona, Cannes, Stockholm, Buenos Aires, Sydney, Melbourne, Versailles, Geneva, etc. In particular from the United States, we have received personal citations from the controller general of the US army for a series of award-winning management films, the coveted Golden Eagle in the US educational category, and the only Oscar from Hollywood ever awarded to a Canadian theatrical feature-length film.

Finally, with more than 170 employees, we are the largest film and animation production organization in the private sector in Canada.

To come to the point, with our experience we are convinced that a bilateral trade agreement that includes our sector would be a liability. We believe film and video producers in Canada can be protected under the umbrella of cultural sovereignty and therefore we will not hinder those industries that feel free trade would be to their advantage. But we do feel the support of Ontario is essential in the defence of cultural sovereignty.

Let me tell you some of the problems facing the film and video production industry under a bilateral trade agreement.

1. US lobby groups in our industry are very powerful and will protect their industry regardless of an overriding trade agreement.

2. With their larger market base and long history of economic development, our US competitors are much stronger and could easily set up branch plants in Ontario that we could not compete with.

3. Conversely, Ontario producers do not have the financial support or infrastructure in place required to set up branch offices in the US.

4. Finally, the Canadian market is less than one tenth the size of the US. Therefore, US-produced goods are dumped in Canada.

As an example, the Dallas television show and most of the prime time television shows that we broadcast in Canada that are American fall into the same category and cost approximately \$1 million to produce. The price to the US television broadcasters is approximately \$1 million.

Mr. Brandt: Is that per episode?

Mr. Stevens: Per episode.

Mr. Taylor: Does that have a cultural impact on us?

Mr. Stevens: I do not think there are tremendous similarities between the state of Texas and the province of Ontario. That in itself is a bit of a negative impact culturally.

Mr. Taylor: You are in the business of undermining a country's culture then.

Mr. Stevens: No. I am not a broadcaster. I am a producer.

Mr. Taylor: As you sell your film?

Mr. Stevens: I would sell my film.

Mr. Taylor: That impacts then on the other country and transfers some of our culture presumably to them.

Mr. Stevens: If I could just finish this one point, the price to Canadian TV for the same product would be far less than \$200,000. I am using this as an example of American dumping into Canada. When I produce a product of a similar nature in Canada, I have to rely entirely on the American market to finance such a venture. That is the quandary we are faced with.

Mr. Ferraro: Would you repeat that, please?

Mr. Stevens: If I produce a product of a similar nature which I wish to sell to the world or particularly to Canada--in other words, something of a Canadian cultural content--I have to sell it to the United States just to justify the cost.

Mr. Taylor: It needs a market?

Mr. Stevens: It needs a market and it has to be sold in the United States to justify that.

Mr. Taylor: You are going to impinge on their culture with ours in order to generate sufficient cash so that you can cover the costs at home.

Mr. Stevens: Of supporting our own culture. Absolutely.

Mr. Taylor: But it will not water down our culture?

Mr. Chairman: But he is also going to eat into their culture in producing a case of film.

Mr. Stevens: If necessary.

Interjections.

Mr. Stevens: I am afraid it does not go both ways in the sense that they have been dumping their product in Canada for at least the last 25 years without our ability to dump conversely back into their country. All the programs that offer any support to our industry, because our industry is so much smaller than

theirs, require Canadian content, Canadian cultural significance and so forth and thereby restrict the possibility of appealing to a market such as the United States. We cannot compete today. We are a fragile industry because of our nearest trading partner's dominance.

There are many positive programs for government support of industry, ours in particular, and there are others being discussed. But I am sure I speak on behalf of my industry in Ottawa, in Ontario and across Canada when I request that your support in this matter be given. It is critical to our growth and in fact to our survival.

That is my statement. Thank you.

Mr. Taylor: TVOntario has its international office in Dallas, selling TVOntario productions. I guess that is a good thing. They are doing quite well, I gather. What would the impact of any action on our part as a country be on--

Mr. Stevens: Because our industry is requesting the province's support in assuring cultural sovereignty as our basic position, the impact of not having that is that we would not be able to proceed with other such measures that may be required to give us a better competitive position in our own country.

If I can give you a brief example, in the theatrical industry more than \$250 million in 1983 was taken out of Canada in revenues by American film producers. Canadian film producers, in contrast, earned less than \$20 million in 1983, the most recent year the figures were available. That is the form of leverage we are trying to address at this time.

Mr. Taylor: You have indicated you need broader markets.

Mr. Stevens: The markets outside of Canada are there. As we grow and develop, we will have the strength to approach those markets. We do not have the strength today to just walk into those markets and compete on an equal basis with our foreign competitors.

Mr. Taylor: So you want to maintain the protection you have now?

Mr. Stevens: At least until we are strong enough to compete in foreign markets.

Mr. Ferraro: As part of that protection, how do governments or politicians deal with the demand--in fact, the craving--of the public for this American product?

Mr. Stevens: I think the only way to approach it is on a long-term basis. I do not think there is an immediate solution. If we can build the industry in this country over a period of time, we will eventually have the product to compete with the Americans. Not that Canadians are necessarily more nationalistic than Americans, but I believe that Canadians, faced with a product at

least of an equal quality, which is a financial consideration, will choose the Canadian product.

Mr. Brandt: I was going to address the point you answered in part about the question of potential protectionism in the US. With your less than favourable penetration of the US market at the moment, what would happen if some of the protectionistic measures that are being threatened by some of the legislators in the US were actually to take place?

Could you survive as a domestic industry only? In other words, if you were limited to the Canadian market, and let us exclude the US market and talk about other markets you may have access to elsewhere in the world, could you survive on that basis?

Mr. Stevens: We have never been dependent on the American market, so the simple answer is yes. Could we grow to the size that would allow us to produce the products that Canadians would enjoy on a larger scale than today? That becomes more debatable. What we are doing in the meantime as an industry at large is trying to establish better relations with other trading partners around the world in order to ensure that the American market is not the only way in which we can survive.

Mr. Brandt: What triggered the question was your comment to the effect that one episode of Dallas costs \$1 million to produce. You indicated comparable production costs in Canada were \$200,000.

Mr. Stevens: No. Let me correct you. What I was saying is they would sell that \$1-million venture to Canada for \$200,000 for broadcast on Canadian television.

Mr. Brandt: Perhaps you could expand then a little bit on your comment when you indicated you would have to finance part of the package in the US in order to develop a comprehensive enough package that you would be able to make a profitable arrangement out of it. You are depending to some extent on the US market now for financing and for release of your product into that market, I would guess.

3:50 p.m.

Mr. Stevens: The greatest difficulty we face is that the US market is so similar to our own. Our cultures are relatively similar in many regards. The language is predominantly the same in both countries, in Ontario in particular and in the US. Those things make the US a more likely candidate for our product than France, for example.

However, because we do require funds from several sources in order to justify a high enough quality production to appeal to the Canadian public, we have been forced to go to foreign partners who are not as likely to accept our product because of basic cultural differences and so on.

On a worldwide scale today, countries are compromising their culture in order to combine forces so they do not have to depend on the US market.

Mr. Brandt: Ganging up on them, in other words.

Mr. Stevens: In fact, yes.

Mr. Brandt: Culture means different things to different people. I know those who would advocate that an attendance at Exhibition Stadium during the course of the next couple of days, watching the Blue Jays secure the pennant, is a cultural event.

Mr. McFadden: Hear, hear.

Mr. Brandt: I just got complete support from my colleague to my right here. As a former Detroit Tigers fan I can tell you we have given up entirely and are conceding the pennant to the Blue Jays. That is just a digression that I added.

Mr. Hennessy: You are in the same position, too. You will end up in the same position as Detroit.

Mr. Brandt: That voice came from one of my allies. That is the first I have heard you speak all day.

Are you indicating that the mechanisms now in place to protect whatever that word "culture" really means are reasonable but perhaps inadequate? I think you responded earlier to another question by saying that you did not want to see those watered down, or that those protectionist barriers, as unstable and perhaps inadequate as they are at the moment, are at least giving you some protection.

I suppose one of your concerns is that under a kind of freer trade arrangement those barriers would be removed altogether and you would be swallowed up. Are you saying, on the other hand, that you favour a higher barrier, some form of greater cultural protection? Is that one of the positions you would advocate before this committee?

Mr. Stevens: Yes, definitely. If we can adopt the concept of cultural sovereignty, then it will act as an umbrella to protect dance, opera and the various other art forms that fall under that cultural umbrella, as well as the production industry, which utilizes all of those other cultural entities.

Mr. Ferraro: How do you classify a film on the US Army as a cultural sovereignist?

Mr. Stevens: The key there is that the industry in this country has been built upon the production of industrial and training material, because that was really the only area that was open to the Canadian producer in the beginning. Crawley Films started before the National Film Board, and the first contracts were defence contracts--for example, producing films to explain the operation of equipment and so forth.

Mr. Ferraro: And you are still doing it.

Mr. Stevens: We are still doing it. It has been a form of bread and butter in this country from the beginning, but it has not allowed us to expand into the area that the Americans dominate in our country.

Mr. Ferraro: But if you were given the cultural sovereignty you request--and you very well may be; there are so many hypotheticals--do you really think the Americans are going to say: "Oh, yes, we understand. Come on down and do a film on the US Army Women's Army Corps program"?

Mr. Stevens: If I may relate an experience to you, we already have the right to produce in the United States films of a training nature. There is a thing called the Defence Production Sharing Agreement, which you may be aware of. We are the only production company in Canada that has applied under the Defence Production Sharing Agreement. Although we were given approval, it has gone through US bureaucratic red tape since the beginning. Quite frankly, the only way we managed to do the work in the past was through subcontracts because of the buy-American plan. Protectionism already exists in America. We have occasionally found a loophole, and I think that is a credit to my peers in my own organization--

Mr. Ferraro: To their ingenuity.

Mr. Stevens: To their ingenuity. But I do not believe there is anything other than a blanket protectionism in the United States in this area already. We would only be establishing one ourselves to equal that protection.

Mr. Brandt: I have one final question. You indicated that the penetration into this market on the part of US exporters is about \$250 million a year.

Mr. Stevens: Yes.

Mr. Brandt: And we are enjoying about \$20-million worth of business in their market annually--that is, roughly 10 to one. Is that the relative size of the industry, in that the 10-to-one comparison is used as a broad-brush comparison between our economies? We are about one tenth the size of the US market. Is the film industry, or the industry you are in, in its most comprehensive identity relatively 10 to one or is it much smaller in Canada? In other words, have we grown to the US level of maturity and sophistication, even in relative terms, or are we far behind even that?

Mr. Stevens: We are actually far behind. The \$250-million figure I gave you is strictly for the box office receipts taken from motion picture theatres in Canada, out of Canada and into the United States. It is not a reflection of the production industry in this country. The comparative figure for box office receipts of Canadian films is much smaller, largely because the films are distributed in Canada by Americans and exhibited in Canada by American-owned companies, for the most

part. There are two very large theatre chains in Canada, and one of them is owned and operated by American interests.

Mr. Morin-Strom: I would assume it to be 100 to one. If we have sales of \$20 million here and the Americans have \$250 million, presumably they have at least 10 times that in their own country. It is probably in the order of \$2.5 billion.

Mr. Stevens: In sales.

Mr. Morin-Strom: In sales in their own economy, plus whatever they are selling outside. We are talking about \$20 million here. It looks to me as if you are talking about at least 100 to one.

Mr. Taylor: You are talking about catching a plane, I gather.

Mr. Stevens: Yes, I am afraid so.

Mr. Chairman: I was just going to ask you to watch the clock yourself.

Mr. McFadden: You raised something that follows directly from this. You mentioned that the Americans are dumping programming into Canada. I take it we are talking here about prime time and all other programming. Can you define the dumping that is taking place, Dallas or any show? Can you break down exactly how they are handling the sales and how they wind up being dumped here?

Mr. Stevens: In 1964, I believe, a task force made recommendations to the federal government of Canada that Canadian broadcasting concerns should no longer be dominated by American ownership. At that time most of not only the production but also the actual airing, etc., and the control of the entities was American.

Since then the Americans have utilized their nearest English-speaking neighbour as a prime market for their products. Because of the advertising base in America, they recover the principal cost in the United States alone. When they come to Canada they are strictly looking for a clear profit.

I will describe very briefly the typical contractual arrangement that is made between an American television network and an American producer. He or she signs a contract with the US network--CBS, NBC or ABC--which is called a licence fee. That licence fee normally is approximately the full production cost excluding profit. It entitles that network to only two airings in the United States during a two-year period. That is the standard arrangement made.

The Americans, in the meantime, are not allowed to sell to any other US markets, but they can sell outside the United States immediately. So they look for their immediate profit return from outside the United States and their longer profit return from inside the United States. When it comes back to them in two years, they exploit it in secondary and continuing markets.

So they come to Canada and approach the Canadian broadcasters--primarily the principal networks, CBC, CTV and Global Television--and all three buy at a greatly reduced rate, because the production has been subsidized by the initial US sale.

Mr. Ferraro: It probably is paid for.

Mr. Stevens: It is essentially paid for, so they are just looking for gravy, and they come to Canada looking for gravy. They do not really care what they get out of Canada, except what the market will bear.

Mr. McFadden: There is a real problem there as to whether that is really a classic dumping case. In Canada, as you said, we try to do the reverse. If you negotiate to produce for CBC or CTV, the normal thing is to try to recover your costs out of Canada, if you can, and then collect whatever gravy you can in the United States or Australia.

Mr. Ferraro: If you do it for CBC, you cannot. If you do it for an independent, you can.

Mr. McFadden: I negotiated two deals myself from the CBC--

Mr. Ferraro: Just being facetious.

Mr. McFadden: --then we sold whatever we could outside Canada. All I mean is that I am not sure we do it any differently. The only difference is that we have a smaller pot to collect the money from. If I produce a show for Canada, it has one tenth of the market. I obviously do not have \$1 million to spend per episode; I have \$100,000, relative size, and I am trying to recover my costs. I do not know how you will ever resolve that problem entirely in the area of feature programming for prime time.

4 p.m.

Mr. Stevens: If I may excuse myself, Mr. Chairman, and address that last point by saying the difficulty is that the assessment that is placed upon the product when it is brought into this country is based on its material value, which essentially, for customs purposes, is probably \$1,000, \$1,500, perhaps \$2,000.

Mr. McFadden: That is the duty on the film. Yes, absolutely. That is wrong.

Mr. Stevens: A film, a videotape, otherwise. However, it can be sold for whatever price they can get once they are inside the country, and our market then dictates what value they can achieve.

Mr. McFadden: Master tapes for records and so on.

Mr. Stevens: That is right. Perhaps therein lies a possible solution to having the product valued at a more appropriate level, because I am sure that any other product

imported into this country is valued at a reflection of the production--

Mr. McFadden: This is one of the few products that is not valued on the basis of its value at all. You are absolutely right.

Mr. Stevens: If I may excuse myself.

Mr. Chairman: Thank you very much. We appreciate your coming, and I hope you will be prepared to come back to a later hearing.

Mr. Stevens: I would be very happy to. For your information, I am meeting with the People's Republic of China tonight as an example of yet another country with which we are exploring trade possibilities as an Ontario company.

Mr. Chairman: You may be expanding our culture to that country.

Mr. McFadden: Just one point as Professor Rotstein makes his way to the--I do not know whether he is coming back or not.

Mr. Chairman: I expect him to.

Mr. McFadden: There are two things. First, I hope we can have Crawley Films or some other group back again, because I understood we were all in agreement that we were not going to sacrifice cultural institutions and instrumentalities. We probably ought to find out what protections they now have and what it is we are trying to protect.

Mr. Ferraro: I am not convinced it is strictly cultural.

Mr. McFadden: There is business there. A lot of things are involved, but I think we have to find out what is cultural, what is business and try to work it through. There are some things that could be explored. Duties and how we handle master tapes and everything are quite complex, so I think it would be worth having them back.

Mr. Chairman: I fully agree and I think that when we have more time after our interim report we can become much more involved in it. There are certain givens that we are all working under, but perhaps we should be exploring them more, especially when some of those industries are areas in which the United States wishes to make some inroads into our culture. They kept talking about border broadcasting.

Mr. McFadden: Broadcasting and so on. The other thing I wanted to ask about, which came out of the earlier presentation, is whether it would be possible, in with whatever other research is being done, for us to get information on these various subsidy programs and to try to get some review of the range of industrial subsidies in Ontario and compare it with those in some other jurisdictions in the United States--for example, the state of New York. We should take states that are comparable to Ontario, rather

than Nevada or somewhere that is not really comparable. Take, say, Michigan, New York--

Mr. Ferraro: The Americans would probably tell us to use Alaska.

Mr. Taylor: The trouble is that you have all these programs and they sound really great, but it is an exercise in optics for public consumption. They are underfunded, so when you go to apply, the money just is not there. But it sounds great.

Mr. McFadden: I think the problem we have right now, though, is that we keep hearing about subsidies--

Mr. Chairman: Mr. Taylor, I thought you told me politicians were optimistic.

Mr. McFadden: The important factor here is that we are hearing about this level field and about subsidies on both sides. We hear that we are under attack for subsidies. Their subsidies are there, and I think it would be instructive for us to be able to see some states that are somewhat comparable to us and to compare, where we can, the subsidies that are available.

Obviously, if they are not funding the programs either here or there, that is something else. But just bearing in mind what seems to be available, we might find it interesting at least to compare, because that is one thing we do not have much information on, except for what Professor Rotstein and one other witness talked about. I cannot remember who it was who commented previously on this.

Mr. Chairman: We will make note of that.

Mr. Brandt: I might suggest in the same vein that one of the documents I think you would find of interest, because it was a very special case but relates to subsidies under very intense competition, is the one on the Tennessee subsidies that were given with respect to the new General Motors plant.

Mr. Ferraro: The Saturn.

Mr. Brandt: The Saturn plant. I think you will find that there was a bushel of subsidies, or a basket of them, that was very comprehensive. The money was available in that particular instance.

Mr. Taylor: We buy them the same way here.

Mr. Brandt: Absolutely. We get into the same competition. It is a subsidy to an industry and it is a way for that industry to be more competitive as a direct result of the subsidy.

Was I first up with--

Mr. Chairman: No. Mr. Taylor was asking a supplementary question.

Mr. Taylor: It was not supplementary. I followed Mr. Mackenzie in the questioning.

Mr. Chairman: Then Mr. Cordiano had a supplementary.

Mr. Cordiano: Did I?

Mr. Chairman: All right, we are back to Mr. Taylor.

Mr. Taylor: We were talking about the rationalization going on around the world in regard to industrial production, the changing nature of our economies--in the United States and Canada, in any event--regardless of the so-called talks on freer trade or whatever.

From what you said, I gather you are anxious to make our industry more competitive in an international sense. Would that be a fair statement?

Dr. Rotstein: Shall I say a few words about that?

Mr. Taylor: All right.

Dr. Rotstein: To appreciate the situation fully, we can look at the positive side and look towards making our industries more competitive, increasing our productivity and modernizing sources of technical information--innovation centres and some of the things we have actually been doing.

However, in order to be more realistic I would also say that in some cases industrial policy is going to have to be put in place to minimize the damage, since there is going to be a considerable falling off of employment in some industries. We have to look at the question of how you protect, insulate or let these industries down without dropping them with a clatter. How do you work through that period? The whole question of transition from one to another takes a great deal of time, and therefore the problem in industrial policy is partly minimizing the damage.

I do not have details on how this could be done, but it is not all forward and positive looking, because we have to realize there are going to be casualties.

Mr. Taylor: Then I might say just for your information, although you have probably read the transcripts, that initially we had Mr. MacDonell, the Deputy Minister of Industry, Trade and Technology, here at one of the earlier meetings when we first began our discussions. It was interesting that he made the comment that he has come around to the view that there should be some type of industrial policy. At least, that is what I got out of it.

He was not advocating an industrial strategy, but again they are words that have been bandied about. He seemed to be changing his thinking in regard to the need for some industrial policy. I throw that out to you for whatever comfort it might be, because obviously he did not start off that way.

The other aspect I am trying to arrive at now--I will preface my remarks by this--is that I gather from what you have said that you are not banking or holding your breath on bilateral trade talks or negotiations with the United States. However, in the meantime we have a dynamic world where changes are taking place and it is necessary, to be competitive, to adjust to internal changes that are happening.

Then you made reference to the General Agreement on Tariffs and Trade peripherally. Would you then subscribe to the GATT type of negotiations? Would your support be more towards pushing change in a nontariff and tariff sense on an international basis?

4:10 p.m.

Dr. Rotstein: Yes, I would say that that would sum up my view. At the same time, we should be realistic about the question of what is on the GATT agenda. It is very much in our interest to put nontariff barriers on that agenda, to have some sort of codes, and perhaps in that way to minimize what may be the more suspicious movements in nontariff barriers in the United States.

The other side of the General Agreement on Tariffs and Trade agenda, which is very contentious, is what it calls "services." That is really a euphemism for high technology, communications, movements of banking information, movements of broadcasting and various other things in which the Americans have a substantial lead. They are interested in a new round of GATT negotiations to open the doors in many countries to what they call "services." Many of those countries are reluctant because they feel that if they are to get a toehold, they have to have some control over their own services before they are taken over by the United States.

I have not thought through exactly what Canada's position is, but it certainly poses a dilemma for us. In that area we might have to develop a policy before we negotiate it away through GATT. In general, I very much agree with your sentiment that GATT is a more promising vehicle for us, if it can be kept on course, than is a free trade treaty.

Mr. Taylor: I am just trying to grasp your thoughts. Would you idealistically subscribe to lessened world aggravation in regard to trade, whether it is tariff barriers, nontariff barriers or whatever? What I am really getting at is I would conclude from what I have heard so far that you agree that international trade is very vital to all countries.

Dr. Rotstein: Yes. I agree with that.

Mr. Taylor: Following from that, if it is vital, I guess we could get into semantics as to whether it is fair, but presumably there would be a multilateral lessening of unfair trade practices or aggravations. There are legitimate tariffs and good reasons for tariffs. I think we have made use of them in our country to the country's benefit in the past. Therefore, while it is difficult to be absolute, from an evolutionary point of view I

see you subscribing to a sort of universal freeing-up, or am I leading you too far?

Dr. Rotstein: I believe that if we can remove obstacles to world trade, we are very much on the right track, but I would really try to illuminate the context, which is somewhat complex. The initials GATT stand for the General Agreement on Tariffs and Trade, and its main focus, its prime target and its great success was the mutual system of tariff reduction. We could say that with some significant exceptions, we met that problem and have solved it to a large extent, but not completely.

The second point is that where trade difficulties arise, they are usually symptomatic of much larger difficulties in other economic arrangements. They are symptomatic of balance-of-payment difficulties, of high interest rates and of Third World debt. All these things play themselves out in the international arena through trade encounters, obstructions and obstacles.

Perhaps there is a view of world evolution that will free up all world trade, but I think it would be a little utopian not to recognize that implies in turn that the causes of the disruptions are somehow doubtful. Trade difficulties are symptomatic of deeper difficulties.

To some extent, you can put out brush fires and patch up problems. However, to turn the proposition around the other way, if there is going to be deep disruption in the world financial system, if there are going to be crises that may be accompanied, for example, by the collapse of oil prices, if there are going to be quite unexpected difficulties as a result of the new status of the United States as a debtor nation, and if those difficulties are serious, they will manifest themselves with new trade problems.

I do not regard this as being on a single plane where we are fated slowly and rationally to overcome all the trade problems to become one great global Garden of Eden.

Mr. Taylor: I agree the world is not that orderly.

Dr. Rotstein: We have to be realistic as to the origins of those trade difficulties and as to whether we can solve them. My final point is, what would be second-best solutions?

Mr. Taylor: If I can put it to you, directionally, would it be a good thing? That is idealistic, but presumably there must be some direction. I put that to you, recognizing of course the self-interest of all nations and the endless imagination man has to respond in cunning ways to action that might hurt him, which manifests itself in all the nontariff barriers. While there is sovereignty of a nation, presumably it will continue and there will never have free trade, as such.

Dr. Rotstein: Except in a perfect world.

Mr. Taylor: In a perfect world; yes. I am not going to live that long; maybe you will. I can think only in terms of direction. Would it be better to go in the direction of freer

trade, recognizing the many imperfections at the different levels and all the rest of it that you have just gone through?

Dr. Rotstein: In principle and with the right background, the answer is yes. In practice, the problem is how and in relation to what problems and, finally, with what kind of price tag. I do not know whether that answers your question.

Mr. Taylor: I was just trying to ferret out your thinking on that. I appreciate the realism and sometimes--

Dr. Rotstein: The world economy is a minefield and it is going to blow up in unexpected ways from unexpected directions. That is my basic perception of where we are going. We have not been promised, despite what Anne Murray might sing, a rose garden in the international field and we must be able to adjust to these problems, some of which have not yet hit us.

To name only one, robots have not yet arrived in Canada. What happens in the industrial process when they do? On top of an 11 per cent base unemployment rate, we will have the additional problem of a work force being displaced by those robots. I think there are going to be very serious difficulties.

Trade is sometimes an insulating device that helps one get through with less pain problems that have their sources in a different area. Therefore, you play with trade as the Americans are doing. If you want to take the long view, ultimately the question is, since we brought the nontariff barriers down, why have the Americans thrown up another line of defence? If we ever succeeded in penetrating that, would there be a third?

Mr. Taylor: I do not profess to be competent enough to respond to you. I would say it is because of the large American debt and that instead of addressing that debt problem, they are reacting to competition because they cannot compete even in their own marketplace.

Dr. Rotstein: We agree on that.

Mr. Taylor: It is easier to respond politically with protectionist legislation the voter understands than to tackle the serious problem that needs tackling.

Dr. Rotstein: I agree.

4:20 p.m.

Mr. Cordiano: I want to get back to the point you made earlier about smokestack industries, traditional industries, that we should augment them and try to hang on to them. As you mentioned in your statement to Mr. Taylor, because we are becoming more automated, there is the other problem of employment. Faced with the whole question of a loss of employment in traditional industries by the displacement of workers, if we move to prop up those industries, we may still get job losses by the tens of thousands in those industries regardless of the free trade deal. Where and in what other areas are we going to employ these people

if we are going to put all our resources into propping up those old industries?

Dr. Rotstein: If I have tried to say one thing this afternoon, I think it is about the misleading and problematic nature of either/or solutions. I think the world is in transition and we cannot fight that transition in any absolute way. It is just a notion of, what kind of cards do we hold in our hand?

If we agree that jobs are our number one priority, we have to understand that we are in a period of transition, but that we cannot move overnight from point A to point B. We are going to have to play both ends against the middle. We are perhaps going to have to let the sunset industries, as they are called, down gently. We are going to have to refurbish some parts of those industries--that is what usually happens--into world-productive class. We are going to have to shield this economy to some extent against undue shocks that could completely disintegrate it. We have to have an eye to the future in terms of the new technology and how we are going to use it.

If we were better equipped with research and technology, Silicon Valleys, experience, managerial expertise, and export and sales expertise, we would go for it. We have to learn how to go for it and at the same time keep some order in the industries we have. That is my sense of it.

Mr. Cordiano: You are referring to a period of managed transformation.

Dr. Rotstein: That is right.

Mr. Cordiano: And managing change.

Dr. Rotstein: That is right.

Mr. Cordiano: Essentially, that will take place regardless of any trade deal and, as such, it points to the restructuring of the world economy that is taking place now regardless of what is going on.

Dr. Rotstein: That is correct.

Mr. Taylor: We may have to de-emphasize the jobs or redefine the nature of a job.

Dr. Rotstein: Absolutely; there are many developments in that area such as shared jobs, shorter work weeks and three jobs in a career. All those things are going to happen and I think we have to foster that--part-time rates and all the rest of it.

Mr. Brandt: Professor Rotstein, we have had a number of academics before us. To this point the large body of those academics have been strong supporters of a free trade concept in some form or another. I was going to say, almost with tongue in cheek, where have they all gone wrong? You are not a voice in the wilderness on this question, but in so far as the academic

community is concerned you are taking a position that is not in lockstep with some of your colleagues.

Are they insulated from the real industrial world? It is not that there should necessarily be a consensus within the academic community, but why is there this broad degree of difference of opinion within the academic community with respect to the whole free trade issue?

Dr. Rotstein: Mr. Brandt, that may be the toughest question of the afternoon. I try to understand my colleagues, but basically I do not agree with them. I will begin by quoting a sentence that struck me very forcibly. It was your sentence at the time of the Financial Post conference on free trade.

Mr. Brandt: I recall you being there.

Dr. Rotstein: Your sentence was, "I would not bet the future of the Ontario economy on a theory."

Mr. Brandt: That is right. It is not a bad sentence. Thank you for quoting me.

Mr. Taylor: Did the new government fire that speechwriter?

Mr. Brandt: That was my speech.

Mr. Rotstein: It struck me forcibly at the time and I have great pleasure in reiterating it. However, it brings us to the question of what kind of theory produces those kinds of results. If I may be a little facetious, the problem with economic theory as it is taught today is that it is reminiscent of a meat-grinder. No matter what problems you toss into it, you get hamburger out the other end; that is to say, free markets and free trade.

The issue of free trade is an extension under a different name of the free markets idea. That is the kind of training we give. It is the apparatus people have and it in my view it produces a trained myopia in relation to the problems at hand. To be serious for a moment as to why it is myopic, it assumes and posits the functioning of those free markets, when in many cases they have eroded and in some cases do not exist at all.

I will give an example in the case of Canada-United States free trade. It is the free market's mechanism that makes the wheels spin, turns things around and underpins the logic. However, if you look at the nature of the trade between Canada and the United States in the manufacturing sector, more than half is no longer trade by partners at arm's length from different companies. Therefore, in the strict definition of the market, it is no longer trade through the market. It is what we call intra-firm trade. The prices established are transfer prices. They are the prices established for parts and equipment in Detroit for the things they are going to get from Oshawa and Windsor.

In a world where prices are transfer prices or administered

prices, there is no reason to believe that all these fine, flexible, laudatory things that the market offers will actually be realized. If you assume the market is in place, perhaps they will be realized. However, if more than half, something like 55 or 56 per cent of our trade, now flows in different kinds of circuits, then it is at least unknown how benefits will shake out, who gets them and to some extent whether the results are as positive as the theory would suggest.

The theory has no way of handling issues that impinge on the economy but are noneconomic, such as political, legal and things such as big shocks. Nontariff barriers are something the economic theory never contemplated, cannot adjust too and is unable to offer a theory about other than that they are an irrational set of monkey wrenches somebody has thrown into the machinery to make it grind down. Nontariff barriers are the issue. The economists have nothing to say about that.

Political issues that have to do with the effect of a particular plant in Ohio or New York state on their respective congressmen filter through the existence of 20,000 lobbyists in Washington who are an enormous force that mediates between economic pressures and new political change. What can economics say about that?

Finally, who predicted the oil shock? Who predicted Third World debt? In short, economists are right in the confines of their own garden of functioning markets responding to supply and demand. However, on all these counts the world has changed. While the music has stopped, the dance continues for economists. That is the problem.

Mr. Taylor: Some are out of step.

Dr. Rotstein: That is right.

Mr. Mackenzie: About a third of the economists who have appeared before us are on your team so it is not quite as overwhelming.

Dr. Rotstein: I did not know that and I am encouraged by that.

Mr. Brandt: What was that, a third?

Mr. Mackenzie: About a third, maybe even slightly better. We have had about eight economists. We have had Lazar and Watkins.

4:30 p.m.

Mr. Brandt: At any rate, if I could proceed to another question, I am trying to get a better handle on the difficulty a domestic market of 25 million people has, recognizing that free trade really talks about Canada. Without the agreement of the provinces, it would be virtually impossible to have any kind of free trading arrangement. That is obvious to most observers of that issue.

With our limited domestic market, the case has been made by some that if we are to increase our exports, as you suggested, as one device to be used for improving the economy, and then on the flip side of that same equation reduce our imports, the only way in which we would be able to do that is by having access without the potential of those nontariff barriers and some of the minimal existing tariff barriers. If those were removed, there would be a greater incentive for European or some of the Pacific Rim firms to locate in Canada and then move into the US market, using this as a home base.

The argument has been raised that without that guaranteed future open market available for sales, it is highly unlikely that some of these companies would risk the very small domestic market that we have in Canada. In the long term, could we reduce our imports and increase our exports if we remained behind either a real or fictitious tariff or nontariff wall, or leave some impediments of free trade in place, recognizing that there are very few countries of the world with our population that have been successful industrially?

There may be a few questions in that, I do not know.

Dr. Rotstein: Mr. Brandt, I have difficulty with the basic premise of the problem in that sense. I do not know of anybody taken seriously who argues that we will be self-sufficient in a market of 25 million regardless of what position you take on the free trade issue.

Second, most of us are underlining, even those who had reservations about connections with the United States, that we should follow through on the opportunity of the latest General Agreement on Tariffs and Trade round.

Third, if the barrier has been thrown up, it has not been done by us. It has been thrown up by the United States in this nontariff barrier's network. There is something to be done regarding our tariffs and their tariffs, but that is small potatoes in terms of what we are really talking about.

Finally, I do not believe in the notion that we can entice firms to manufacture in Canada as a jumping-off point for selling in the United States. If they want to sell in the United States, they will locate there. We have the additional problem that many Canadian firms do not believe we will ever get secure access and they are picking up everything and starting their plants in the United States as well.

The final irony is that nothing and nobody can give assurances that we will get secure access. In the hypothetical event we got a free trade treaty, why would not the same thing occur again in a third round of some new form of American protectionism if they are hurting, if their vital interests are threatened and if they cannot manage it any other way? It might come up again. Those are the realities. What I usually take objection to is an outline of that argument, including the market of 200 million that we need and then the "therefore" we should have the free trade.

We will not get the "therefore" because the Americans are not prepared to make the crucial concession of secure access as it should be reasonably defined. It does not follow that even if we had it, the investment would take place here in order to sell there. In other words, I do not see this is as a plausible scenario.

Mr. Brandt: If you look at examples, some of which were used in your presentation of the auto pact, perhaps I may use a specific firm because I was involved in the very program you were complimenting us on with respect to the auto investment fund. The Vannatter firm in Wallaceburg exports about 90 per cent of its product output into the US market.

Many other firms have developed in Canada as a direct result of having access through a freer trading arrangement under the auto pact. That is the way I described it. I did not describe it as free trade and the auto pact being one and the same. But it is freer trade in the sense that it allows for a two-way enterprise to be entered into in a way that has been reasonably acceptable to both countries.

Some of those firms have located in Canada, recognizing full well for a range of reasons that they wanted to be in Wallaceburg, or north of Toronto or somewhere, with the understanding that they had a long-term pact that would allow penetration of the American market from the Canadian side.

It may be because of our societal base, for cultural reasons, or that the total working environment may be more acceptable to them, or whatever. Part of it is the 70-cent dollar; there is no question about that. That has enhanced our position considerably. But they have located here to do the very things that you are saying other firms would not do; in other words, they would not look at this as being a launching point into the US market.

Yet we have examples, I would suggest to you, that are very much isolated towards the auto market. They have established here for those reasons, and that they would be given the opportunity to have the penetration of the US market. You are suggesting that will not happen even if something like an auto pact or a freer trade arrangement was put into place.

Dr. Rotstein: Your question is very plausible. If we could recreate the auto pact, could we not recreate some additional investment in the same style? That has to be taken as a serious possibility, but we also have to go on the statements made. I can quote you from three or four people who have made those statements that that is not the kind of arrangement we are going to have.

Beyond that, I do not know if it is strictly relevant, but what we face is a curve ball in the auto pact, namely, what happens when the production of American-owned subsidiaries in Taiwan, Japan and Korea begins to be shipped into North America, as it already is, and into Canada in particular? There we have the unexpected way in which this problem comes up.

As I understand it, the auto pact specifies that the Americans have to produce proportionate production in Canada or pay the duty. This is a clause that is often neglected. Suppose we were in some kind of free trade arrangement and the duty is zero to negligible. I think they are shipping in 25,000 or 30,000 of this very small model made in Taiwan from the Ford plant.

Mr. Brandt: Yes, from the Ford plant.

Dr. Rotstein: The Americans are producing Chevrolets in Japan with Suzuki. Part of the deal is that if an American company is involved abroad, you cannot have the import quotas operating. The big three gradually decide that they will observe the auto pact, but "Pay the duty, thank you very much."

This the kind of unexpected set of problems that are going to come in this way. I do not know if it really meets the kind of question you raised, but it is an indication that we are just going to have to be extremely nimble and flexible and that the price of a free trade arrangement is to tie our hands. We will never be able to say no to an American-owned subsidiary in a third country that wants to bring things into Canada, if we have a free arrangement. That is my theory.

4:40 p.m.

Mr. Hennessy: Do you think, as a possibility, the auto pact is a good plus for Canada? If negotiations get a little difficult, a little tough, will they not use the threat of abolishing the auto pact in order to get something going their way? Is that a possibility?

Dr. Rotstein: The best answer I can give you is that I think we have to hang on to it fiercely.

Mr. Hennessy: What if they indicate to us that they are abolishing it?

Dr. Rotstein: Pardon?

Mr. Hennessey: As far as we are concerned, there is no pact to bring us to the table to make us negotiate with them. After all, they have a trouble card they are going to play, too.

Dr. Rotstein: As a lever, yes. What is your question in that case?

Mr. Hennessey: Would they threaten to or maybe abolish the auto pact? Are they in a position to do it? It is just an agreement. Can that agreement be terminated?

Dr. Rotstein: If the attrition of the American automobile industry becomes very serious. The Japanese are still producing equivalent cars at \$1,500 less than in the United States. General Motors has done an end run and is producing more and more abroad and bringing in either cars or parts and components. If the American automobile industry then has to start

contracting and the employment pressures are very great on them, I can foresee that kind of scenario.

The question will be raised, why are we producing so much up in Canada when we are hurting so badly in Michigan? It is a hypothetical scenario, but it may come up under those circumstances. I think we would be well advised to hang on to it as long as we can, realizing the complexities there are and that the thing may be severely upset by factors from third quarters altogether.

Mr. Hennessey: When the Prime Minister announced that we were going to enter into trade negotiations, in some of the media the statement came out that there could be a possibility of a loss of one million jobs, but only for a short time. Nobody said what a short time is. For some people, 10 years is a short time or six months is a short time, and they borrow and they say, "Oh, that is a lifetime."

Mr. Taylor: For me, six months is long time.

Mr. Hennessey: What can you say about pitting free trade against the possible loss of jobs for a short time? If you are 62 years old, a short time is a week. How would you look at that situation? It is not as easy as it looks. If you step into the free trade market and negotiate, you are negotiating away a lot of jobs. What are the benefits on one side and the deficits on the other?

Dr. Rotstein: There is a peculiar numbers game going on in this field. The figures which were released indirectly came via Mr. Kelleher, through the Premier (Mr. Peterson), and indicated that the federal government's studies showed the potential loss of 840,000 jobs, or seven per cent of the labour force. Those studies have not been made public by the federal government. Perhaps they will.

The numbers on the other side, from Queen's University, in particular from a study by Professor Harris, is very upbeat, that after the shakeout, there will be an increase in jobs of five to eight per cent of the labour force. I have not done a detailed analysis of that study, but my sense of it is that it makes rather peculiar assumptions about what happens to the branch plants in this country.

The big issue on the employment side is does an important segment of the branch plants decide that they are going to fold up here because they can ship in more easily from their production in the United States? I should not say that all of them will fold up--there are some costs--but they may not expand and they may gradually decide to become a warehousing, merchandising and sales network rather than a manufacturing and production network.

I think Professor Harris's study makes the kind of assumption economists usually make, that all facilities will be used to their optimum extent. In practice, if the road is opened and branch plants or multinationals can ship in from the United

States, there will be an increasing pressure to do so. You may see additional problems with employment in Ontario for that reason.

Mr. Hennessy: Can I have a third opinion on that? You said the government gave its version and the professor from Queen's gave his version. What is your version? It is one all.

Mr. Taylor: Do you call it unemployment or do you call it dislocation? As I understand Mr. Mulroney's statement, the word he used was "talks" not negotiations. I thought there was quite a difference.

Mr. Hennessy: I thought it was negotiations.

Mr. Taylor: When the announcement first came out, it was my understanding of the press release that we were to enter into talks. I do not know. We can verify that.

Mr. Hennessy: If you negotiate, you have to talk. If you cannot talk, you write notes.

Mr. Taylor: You have to talk before you know what you are going to negotiate.

Mr. Cordiano: If I can go on with this point, you have touched on what is essential to this discussion--the whole question of branch plants and what they will do. We had a representative of IBM here this morning and I posed this question to him, would your company continue to do the kinds of things it is doing now under a free trade deal? That is IBM. Perhaps, as you say, there are sunken costs, a great deal of investment, etc. This whole area becomes a little nebulous.

I do not think we have on this committee the kind of information that would be pro or con of that point of view. I do not think we can make that kind of assessment right now with this lack of information. We do not know if some of these companies are going to pick up and leave or what the incentive will be for staying at that point. Those are the kinds of questions I am trying to deal with in my own mind. It is a real dilemma. How would you see the multinationals' branch plants? Do you see the majority of them picking up and leaving?

Dr. Rotstein: I see a significant portion--I do not want to put a number on it, but I would say more than 50 per cent--winding down and retaining a token presence. For some in sensitive industries--for example, IBM which sells communications equipment to the government--it helps to have a presence in the market and to show that there are jobs available. It is a sales point.

Not all of them are going to pack up. For some, it is an important point to have a presence, to stay and actually do something here, but we are going to see a lot of them winding down and they are going to create a vacuum in that case.

Referring to the question that was put previously, yes, there will be Canadian companies who will benefit substantially. They will be able to take off, they will meet the challenge and get into the American market with some assurance. If there were not some of these nontariff barriers-- I mean that was already guaranteed to them, supposedly, until these problems came along. Urban transit and petrochemicals are two industries that were never given to us under the original GATT.

I have not done the econometric studies, but if you were to ask me how, on balance, it would shake out, I would say we stand to lose more jobs than we gain. This is mainly because we do not have the technical, entrepreneurial and managerial skills to move quickly into that area and we would be fighting an uphill battle most of the time. That is what I would call an educated guess.

Mr. Cordiano: You are saying that even in the light of the fact that there would be a substantial phase-in period, say, a decade. The proponents of free trade are arguing that there would be a great deal of time to adjust to these transformations that will take place.

4:50 p.m.

Dr. Rotstein: Either Mr. Niles or Mr. Yeutter put that adjustment period on the table for negotiation. In other words, it may not be as long as we may want, and some people have said we should have twice as long as they have and that kind of thing.

It really assumes that all systems, many of which do not function well in this country, will be put into gear; they will call us and we will go. I think some will. I do not underrate our capacity to do that. But we are beginning with one hand tied behind our back and, if I were a betting man, I would not be optimistic about whether in the end we will get more appointments than we have.

Mr. Cordiano: Given some of the structural changes taking place in the economy that we have heard about from various industry groups, would they not augur well for the kinds of changes required, say, within the next five to 10 years?

Dr. Rotstein: We have done something, but probably we have not done enough, and we still have a strong prejudice in this country about industrial policy. It is against industrial policy.

To my knowledge, nothing of a serious kind in this area is going on within the federal government other than production requirements for some car companies and some manufacturing. A few things are going on in the provinces. It would be hard to generalize from the few success stories that this is going to become the major road, track or vehicle into industrial upgrading. We are still half in limbo on the issue. That is the problem.

Mr. Cordiano: Correct me if I am wrong in saying that 49 per cent of Ontario's economy is foreign-owned at this time. That is a major concern I hold.

Mr. McFadden: What you just said, though, is pretty

damning in terms of the Canadian economy. I do not have such a pessimistic view of Canadian capabilities and expertise. What you said was that without whatever modest protection we now have we would be so technically and managerially inferior that if we were to reduce even the modest tariffs there now, they would knock us out of the ball park.

If we follow your suggestion to its logical conclusion, given what is happening in the Pacific Rim, we will be blown away anyway. If we leave things the way they are now, we will merely have a longer adjustment period until we are out of business. That is a pretty pessimistic view of our country. It suggests that going into a negotiation where we might make some trade arrangements--I am not talking about free trade, just some additional managed trade, which you described the auto pact as--would not be useful to Canadian industry.

We have had a number of witnesses here who have said it would help them to protect jobs and expand their markets. I am talking about people from the steel industry, the chemical industry, the wallcovering industry; I can name several who do not hold to that view.

I have a real problem with identification. First, we have some problems identifying the industries that are going to gain and lose. There is some real confusion about this. We have been presented, for example, with the brewing industry.

Why cannot the brewing industry compete? Because it has a planned arrangement. It has been so regulated by government, so crippled by government, it is totally inefficient by any standard. It has been the government's decision, mainly because of temperance rules and the love-hate relationship we have with liquor in this country, that has caused us to develop a bizarre idea of it. We love to collect money from it but governments across Canada like to moralize about it. They collect taxes and hobble the industry. So you have an industry which would suffer because of government, not because of its own entrepreneurship.

We have heard from other industries, such as lumber, which are against free trade. They are in favour of free trade to protect the markets they have, but against it where imports might come in to unsettle areas where they figure they would not be competitive. We are getting a lot of this back and forth movement. In many ways it is like trying to nail down jelly in terms of what people want.

The one thing I feel is fairly clear, and we will have to see as we evolve down the road, is what the entrepreneurs we are seeing here feel. They are not only from the private sector, but also corporations like the Urban Transportation Development Corp. that we heard the other day. What a complex paper it presented. You might have seen it reported. It was reported quite extensively in the Toronto Star.

They set out a very reasonable approach to this thing, not looking at it simply. They can see negotiating in order to deal with the complex series of restraints on their doing business in

the United States. They want to go ahead with discussions. They say they can compete, but they want the government to negotiate a fair arrangement regarding procurement and various other matters.

The thing that worries me is this pessimism about Canada's ability to deal internationally. I am not that pessimistic. I know we have a problem with branch plants, which is one of the things we would like to get to the bottom of. We have asked for some research on that. We want to talk to some of these groups and our research is going to be aimed at determining what their objectives are. In the sense that tariffs now between Canada and the United States are very modest, I am curious about what is keeping them here at all.

American investors are investing in Canada now in spite of the fact that tariffs are dropping. I cannot figure out why we get 50 per cent of the branch plants closing out. There is no indication at this stage why they close out, but we would like to find out more about it. At the same time, I am surprised that you are so pessimistic about the Canadian business community and the entrepreneurs being able to cope. I am not that pessimistic.

Dr. Rotstein: Let me reply briefly, first, that my position is not that we will either roar in with a spectacular success or that we will collapse entirely.

Second, I do not think the issue is resolved very far with the right emotional attitudes of optimism or pessimism. All I can do is give you some numbers.

Compare the average years of managerial training and experience in the UST with the equivalent for a manager in Canada. It is higher in the United States. Compare the expenditures on research and development, either as a percentage of the gross national product or any other ratio you want in the US with that of Canada. It is higher in the United States. Compare the sales efforts and experience and the very complex problems of selling abroad in virtually any other country. It is more successful and it is higher. We just have not got with it.

I am saying based on that not that we are going to go down the tube, but that it is going to be a much more substantial uphill battle. On the basis of the odds as they stand, I am reluctant to be optimistic. I am very cautious and appreciative of what kind of base we are operating from in this particular case, or the productivity numbers or some other numbers. In other words, start with the numbers rather than the feeling about the industry.

There is reason to think that we start with a handicap, as they say in golf. That is the basis of my position on the thing. See what you have on your side and see what the other side has got, and then decide what the odds are.

Mr. McFadden: That is what we are trying to do. We are going to be doing this from now until next spring.

Mr. Taylor: Man has the amazing capacity to adapt, and it may be when we are behind the eight ball, you are going to see a lot of fast learners rather than slow learners.

Dr. Rotstein: I think so, but, to sum up, I was trying to make a point about the parameters of this debate, which are important. If we begin by saying that the parameters are whether we should have a free trade treaty and it will be clear sailing, or whether we should not have a free trade treaty in terms of clear sailing, to my mind, these are the wrong parameters and that is the wrong scenario. I suspect we are going to spend a lot of time on this. It will gradually dawn on us that, whatever we are getting out of it, it will not look like what we went into it for, which was the secure access.

We are going to have to top up or supplement whatever kind of trade arrangement we have with serious industrial programs at home. My regret is that our energy, our activity and our preoccupation will be with this free trade arrangement which, at best, can only be a partial facsimile of what we hope to get. In the meantime, we are going to lose time and we are going to avoid tackling the problems that are here at home in our plants which have difficulties. It would be a pity if we did not get down to the source of the difficulties.

Mr. Taylor: I have two final observations. One is that we are going to be preoccupied with the reaction to what is going on there now. You mentioned 300 US bills. That may be time-consuming, exhausting and expensive. The other is that while we are talking, we may not be fighting so much.

Mr. Mackenzie: I have a last question. When you started, you dealt with our weakness in research and development, which has concerned a lot of people. Do you think that, or are you convinced that our branch-plant situation is responsible for a lot of that?

Dr. Rotstein: It is a very important factor. It pays rationally to centralize R and D in head offices and, consequently, to levy a licence fee or some similar arrangement and sell it to the branch plant. That is a crucial factor in why we have done comparatively little R and D.

Mr. Mackenzie: Evidence came out fairly clearly before the select committee on plant shutdowns and employee adjustment that not only was research and development not being done, but also in many cases the plants that were before us were not even allowed to attempt to export if they wanted to because of the arrangements they had.

Mr. Cordiano: That is clearly what we are talking about. If these companies are not going to be exporting, they are not going to be developing or evolving the natural course in the life of any industry, or company within an industry, which is to seek new markets.

Dr. Rotstein: Anybody who puts forward the idea that a branch plant will compete with its parent on the parent's home ground, having higher costs and lower production runs, and that the parent will allow it to do so, is living in another world.

Mr. Cordiano: That is what we are trying to get at here. If these companies are not going to export, where are the gains

going to come from? Are they going to come exclusively from Canadian companies?

Dr. Rotstein: That is what they are saying. There may be some point in the idea of a world-product mandate. There has been some progress there. A number of companies have been successful, but it is a very small proportion of what is going on.

Mr. Cordiano: Again, we are getting into murky waters. This whole discussion is nebulous. We have to have some figures. We have to have something to base it on so we are better informed when we try to look at this. We are going back to square one. We are going around in circles.

Mr. Taylor: You will never know because you are trying to predict the future.

Mr. Cordiano: I think we should look at what is happening right now and try to--

Mr. Taylor: The waters will always be murky. There will be many rocks and shoals.

Mr. Cordiano: I do not disagree with you, but before we proceed with negotiations, I think what should be happening now is discussion. Negotiating what? Do we know what we are negotiating? Maybe the federal government does.

Mr. Chairman: I think that is a very pertinent question on which to end.

Mr. Cordiano: I think so.

Mr. Chairman: This ends all our public hearings until we begin drafting our interim report. It is obvious from the number and extent of the questions that the members of this committee were quite interested in your views, Dr. Rotstein. We are certainly going to be considering them as we draft our report. Thank you very much, sir.

Dr. Rotstein: Thank you, Mr. Chairman. It was a privilege and a pleasure to be here.

Mr. Chairman: To members of the committee, Mr. Arnott has given me a copy of the 1980 report of the standing committee on the administration of justice, which had hearings from September 2 through to October 17 of that year and took until December 18 to put together its draft report. With that--

Mr. Cordiano: I did not quite get that.

Mr. Chairman: All I am saying is that our work may be just beginning. We will see you Monday morning at 10 a.m., so bring your tomatoes and ammunition and away we go.

The committee adjourned at 5:05 p.m.



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